HEUBLEIN '77

ANNUAL REPORT

Consolidated Summary of Operations

Dollars in thousands except per share data	1977	1976
REVENUES:		
Beverage	$ 838,520	$ 858,706
Food	487,245	489,302
International	225,137	235,125
	1,550,902	1,583,133
Cost of sales	1,093,600	1,099,416
Selling, advertising, administrative and general expenses	338,042	338,454
Operating income	$ 119,260	$ 145,263
OPERATING INCOME:		
Beverage	$ 72,935	$ 72,732
Food	30,777	52,211
International	15,548	20,320
	119,260	145,263
Interest expense	29,551	18,494
Interest income	2,726	2,810
Miscellaneous income (expense) — net	3,861	763
Income taxes	47,528	64,433
Income from continuing operations	48,768	65,909
Income (loss) from discontinued operations, less tax effect	(7,200)	7,184
Income before extraordinary items	41,568	73,093
Extraordinary items, less tax effect	—	—
NET INCOME	41,568	73,093
Preferred dividends	—	—
Earnings applicable to common stock	$ 41,568	$ 73,093
Common and common equivalent shares	21,435,418	21,536,526
Earnings per common and common equivalent share:		
Continuing operations	$2.28	$3.06
Discontinued operations	(.34)	.33
Before extraordinary items	1.94	3.39
Extraordinary items	—	—
NET EARNINGS	$1.94	$3.39
Earnings per common share assuming full dilution:		
Continuing operations	$2.23	$2.96
Discontinued operations	(.31)	.31
Before extraordinary items	1.92	3.27
Extraordinary items	—	—
NET EARNINGS	$1.92	$3.27
Cash dividends declared per common share	$ 1.29	$ 1.175
Common dividends declared	27,333	24,838
Earnings retained in the business*	21,435	41,071
Taxes of all kinds*	470,050	486,366
Capital expenditures	55,819	52,223
Depreciation and amortization*	23,714	20,778
Net property, plant and equipment	264,988	254,558
Working capital	235,339	230,344
Current ratio	2.1 to 1	2.0 to 1
Return on shareholders' equity*	12.8%	18.9%
Income as a percent of revenues*	3.14%	4.16%
Worldwide employment	22,789	24,871
Common shareholders	29,071	24,769

Restated or reclassified where material
*Based on continuing operations

Management's Discussion and Analysis of Consolidated Summary of Operations

The following discussion is presented to explain certain comparative changes shown in the Consolidated Summary of Operations. The Company's accounting policies, consolidated financial statements, and notes to consolidated financial statements should be read in conjunction with this discussion since they are all essential in evaluating the Company's results of operations.

Subsequent to June 30, 1976, management concluded that the Company would dispose of its poultry operations and a provision was made in the first quarter of fiscal 1977 to cover subsequent operating losses and disposal costs. See note under "Discontinued Operations."

The discussion below compares continuing operations only and does not include any impact from poultry operations in any period discussed.

1977 Compared to 1976

Revenues from continuing operations declined 2% from the prior year. The Beverage Group decreased 2% primarily due to lower sales volume in the refreshment wine category. The Food Group remained flat as a result of declines in Company-owned KFC stores offset by gains in Grocery Products' Mexican Food category and A.1. Steak Sauce. The contributing factors to KFC's decline were the refranchising program and lower per store averages, further complicated by 1977's severe winter conditions. The International Group fell 4% chiefly due to a decline in Brazilian beverage operations. Price increases were negligible.

Cost of sales declined only 1%, however. The decline in manufacturing costs due to lower volume paralleled the decline in sales but this was more than offset by higher costs of paper products, packaging materials, food costs and labor as well as a portion of the costs attributable to the phase-out of the equipment and supplies operation.

Selling, advertising, administrative, and general expenses were unchanged. This is a result of reductions in advertising, merchandising and sales promotion of 3% (following a 22% increase in the prior year) and favorable cost controls with respect to general and administrative expenses resulting in a decline of 3% (7% before the negative impact of a portion of the equipment and supplies phase-out expenses). Offsetting these improvements, retail store operations spending increased because of KFC's quality service campaign and higher repairs and maintenance in an effort to enhance store image.

Interest expense rose 60% over the prior year as a result of the extremely high rates encountered in Brazil coupled with somewhat higher borrowings. Miscellaneous income was favorably impacted by greater foreign exchange gains.

The effective tax rate of 49.4% did not change from prior year, although the components of it did change.

1976 Compared to 1975

Revenues from continuing operations increased 12% with each line of business contributing to that increase. Beverage, Food, and International rose 11%, 10% and 21% respectively. Increasing demand for established products and favorable results of new product introductions, particularly Malcolm Hereford's Cows, contributed to the increase. Management estimates that price increases amounted to 2% of revenues.

Cost of sales increased 11% due principally to increased volume, including new product introductions. The easing of inflation and more favorable grape prices helped moderate increasing manufacturing costs.

Selling, advertising, administrative and general expenses rose 17%. This was due primarily to a 22% increase in advertising, merchandising and sales promotion reflecting increased efforts to broaden market share and ensure the successful introduction of new products.

Interest expense reflects a small increase due principally to somewhat higher offshore short-term borrowings to meet working capital needs.

Income taxes reflect the 49.4% rate versus 50.7% in the prior year due primarily to an increase in investment tax credit and higher foreign earnings with lower effective income taxes thereon.

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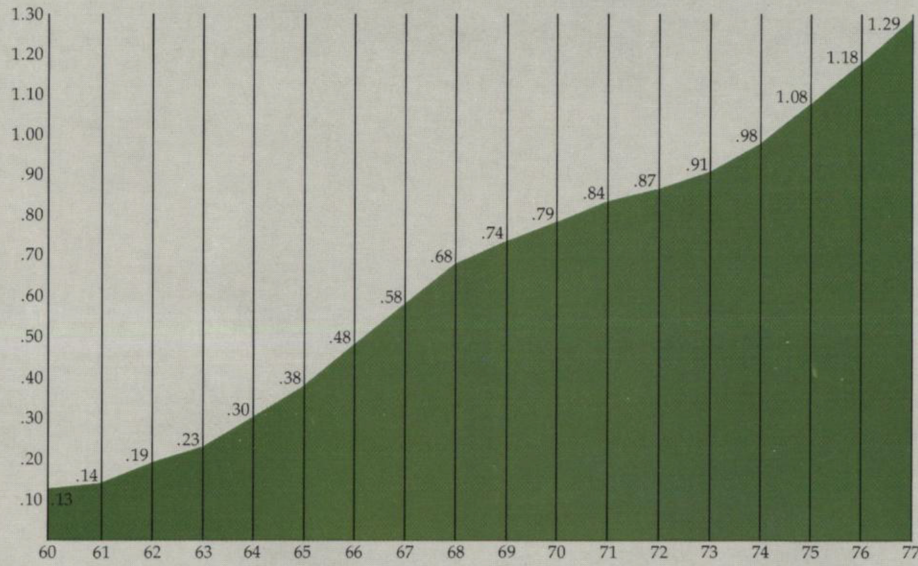
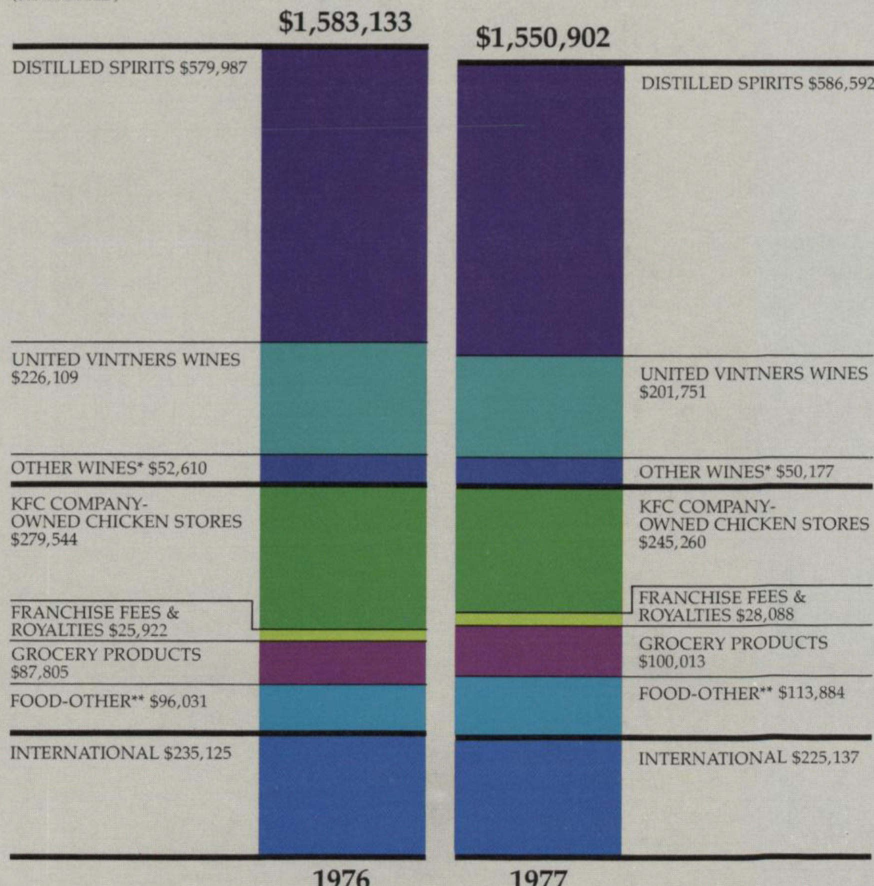
Dividends Declared - Per Common Share (IN DOLLARS)



About The Cover: This year's cover photo symbolizes Smirnoff's heritage as the official vodka of Russian royalty in the 19th century, and its ever-growing contemporary popularity as a versatile drink, enjoyable by itself or with almost any mixer. In the foreground are authentic Russian artifacts of the late 19th century, when Smirnoff Vodka reputedly sold at the rate of a million bottles a day in Russia alone. The small vodka goblet, bearing the crowned monogram of Grand Duke Alexander Mikhailovitch, great-grandson of Czar Paul I, was made in the Russian Imperial Glass Factory in St. Petersburg. In left foreground is a gilded silver and enamel kovsh, used for tasting beverages. It was made in St. Petersburg by the craftsman Chlebnikov. The goblet, kovsh and the Russian birch root box were provided courtesy of A La Vielle Russie, Inc., 781 Fifth Avenue, New York City.

Sources of Sales and Revenues
(000 OMITTED)



*IMPORTS AND BEAULIEU VINEYARD **PRIMARILY STORE EQUIPMENT AND SUPPLIES AND OTHER RETAIL STORES

Heublein

For over 100 years Heublein has served as a hallmark of good taste in fine foods and alcoholic beverages.

Depicted on the following pages are highlights in the making, the marketing, and the enjoyment of these fine products.

Financial Highlights

Year Ended June 30	1977	1976	Percent Increase (Decrease)
FOR THE YEAR:			
Revenues	**$1,550,902,000**	**$1,583,133,000**	**(2)%**
Income before federal, state and foreign income taxes	96,296,000	130,342,000	(26)
Income taxes	47,528,000	64,433,000	(26)
Income from continuing operations	48,768,000	65,909,000	(26)
Net income	**41,568,000**	**73,093,000**	**(43)**
Earnings per share:			
Continuing operations	2.28	3.06	(25)
Discontinued operations	(.34)	.33	
Net earnings	1.94	3.39	(43)
Cash dividends declared per common share	1.29	1.175	10
AT JUNE 30:			
Working Capital	235,339,000	230,344,000	
Shareholders' equity	388,557,000	372,902,000	
Shareholders' equity — per common share	18.26	17.54	
Number of common shareholders	29,071	24,769	

Letter to Shareholders

After nearly two decades of record growth, year-after-year, Heublein, this year, for the first time, had annual sales and earnings below its prior year.

A combination of events, some beyond our control and others that, in retrospect, should have been better managed, produced these disappointing results.

Income from continuing operations declined 26 per cent from last year and earnings-per-share were down 25 per cent, while sales remained about the same.

Three trouble areas, identified to shareholders as early as our second quarter, continued to grow worse as the year advanced.

First, there was an unexpectedly sharp decline in refreshment wine sales, industry-wide, and we shared in it as the tastes of young adult consumers shifted to other types of wine.

Second, sales at our company-owned Kentucky Fried Chicken stores declined, partly because of the growth in the number of fast-food facilities, and partly because of shortcomings in our own operations, as revealed by consumer research and outlined in the following pages.

Lastly, our spirits operation in Brazil suffered a setback as government-invoked economic austerity measures came at a time when our receivables were over-extended and wholesaler inventories were abnormally high.

We responded promptly with counter-actions but couldn't hope to reverse this situation before year's end. Action programs are now at work but it's going to take time to produce the desired results.

There is a relevant observation to be made about today's consumers.

While consumers have been responding strongly, despite an uncertain world economy, we sense a significant change in buying habits, a change not widely recognized.

Faced with higher living costs and the prospect of more increases, consumers are feeling their lifestyle and their discretionary buying power threatened. Consequently, they are shopping harder for quality and for values.

Although Heublein is sensitive to the ever-changing consumer and our product lines are positioned in their every-day buying range, in fiscal 1977 we did not adjust our strategies quickly enough to take advantage of this developing trend toward price/value emphasis.

Heublein is still in a good position to do relatively better than its competitors and better than we did last year, as demonstrated by our historical record. We are striving to strengthen, in all economic circumstances, the foresight and quick-reaction capability for which Heublein is generally credited.

Our foresight in spotting consumer change led us into fast foods five years ahead of the current boom. We entered the United States wine business seven years before table wines achieved their present popularity. With Smirnoff vodka, mixed cocktails, tequila and our light and flavorful drinks, we hastened a major consumer taste trend. Now Mexican foods are confirming our belief in their growth potential.

These are now cornerstones of our basic food and beverage business. And they exhibited good strengths on a worldwide scale this year.

KFC franchisees, generally, had a good year; many of them an outstanding year, adding 173 new stores and achieving record KFC System sales. It proved once again that the KFC meal, prepared outside the home, is a popular value for millions of consumers, both here and abroad. This was further demonstrated this year by the opening of 52 new KFC stores in foreign countries, bringing the total to 832 outside the U.S.

Still there's room in this rapidly-expanding, $14-billion fast-food industry for new ideas. For example, our Zantigo concept of Mexican-American restaurants continues to grow and develop, encouraging planned expansion.

One more note about the growth of Mexican foods: It was the increased sales of our Ortega brand, together with another good performance by A.1. Sauce, that boosted our grocery products sales to a record level.

In the U.S. beverage business last year, nearly every component had little or no growth except for soft drinks and non-whiskey spirits. Non-whiskey spirits account for nearly half our business and once again, this year, our spirits sales grew faster than those of the total U.S. industry.

The performance of our California wine company, United Vintners, reflected almost exactly what happened to wine consumption in the U.S. last year. Table wines were up; refreshment and sweet wines were down. U.V.'s gains in table wine sales were led by Inglenook which was among the fastest-growing major California wine brands.

Excluding Brazil, our international business was good, and showed even stronger increases for Smirnoff Vodka and Kentucky Fried Chicken franchisee sales than we experienced here in the U.S.

Briefly, that's how our basic business performed. On the strength of that performance Heublein had a very profitable year, albeit, not a satisfying one.

Action programs to start the tide of growth moving strongly again are already underway throughout the company.

Our Food Service and Franchising Group is now organized along divisional lines with separate operations for KFC, Zantigo and H. Salt Seafood Galleys. The result is

a more streamlined organization with considerably less overhead, able to respond readily to new opportunities.

In our KFC stores, product quality, service and cleanliness are being stressed in a training program for all personnel.

The first of KFC's new-image stores, with modern exterior, shining interior and expanded seating, opened in Columbus, Ohio, with favorable consumer reaction demonstrated by greater traffic and increased sales.

Two other moves are calculated to improve KFC's results by allowing for greater concentration on its retail business. First, the sale of its Alabama poultry-producing operations was successfully negotiated after concluding that its wide, cyclical, profit and loss swings were proving counterproductive to the mainstream of our business. Second, KFC began phasing itself out of its low-profit equipment and supply operations.

At United Vintners, we've gone to a more vertical-style structure with separate, decentralized organizations for our premium wines, for standard wines and for a distributor operation which sells directly to retailers. This assures greater coverage and penetration of each of these markets.

In Brazil, where the volatile economy calls for top management to be well-grounded in local business, we've appointed a South American manager, experienced in Brazil's economy and its beverage industry, to head up our spirits operation, the largest in South America. This appointment, together with the addition of new top-level executives in sales, finance and marketing, will greatly strengthen our operations in South America.

Taking a realistic view of Heublein's business in the new consumer environment, we are continuing to spend heavily on marketing our products, our controls are tighter and our organization is leaner. The immediate goal is to increase productivity by managing our costs more effectively.

Heublein's future growth was provided for this year with a new spirits plant under construction at Paducah, Kentucky, scheduled for completion in late fiscal 1978. Other major expansions and improvements were made at our Spirits plants in Hartford, Connecticut, Allen Park, Michigan and Menlo Park, California; at our wineries in Asti, Escalon and Oakville, California, and our tacos plant in Stoughton, Wisconsin. Considering the high return on investment that we've maintained over the years, these are sound uses for our capital.

The social responsibility of our corporation, centering on combating the disease of alcoholism and alcohol abuse, and advancing the social welfare of communities in which we work, received demonstrable support again this year. The message of moderation quietly introduced in our Smirnoff advertising copy more than two years ago has drawn the commendations of government and social agencies working for this same purpose. We have now widened this effort to speak to moderation to other spirits product advertising.

In the midst of our difficulties this year, we instituted two programs in which employees can respond to our current difficulties with an extra effort. The results are very gratifying. One program, a suggestion system, brought forth true money-saving ideas which we've implemented; the other opened up a direct communications line, employee-to-President, on ideas of how to "Team Up" for better business. The latter drew some 300 ideas which were promptly recognized and the best were put into action.

As the year drew to a close, death claimed Peter Fraser, a member of Heublein's board of directors for more than 20 years prior to his retirement in 1976. He was a loyal and trusted counsellor who served Heublein shareholders well.

In summary, Fiscal 1977 was a disappointment, but also a time of discovery and decision. We identified the major weaknesses in our business that needed correction and the major strengths on which we must build. Despite our difficulties, our balance sheet grew stronger. Our management is strong, aggressive, and competent, and considerably the wiser for this year's experience. We are determined to get back on the growth track as quickly as possible.

With the steadfast and determined performance of our employees, and the understanding support of our directors and shareholders, we can hasten our recovery and fiscal '78 should see us well on the way.

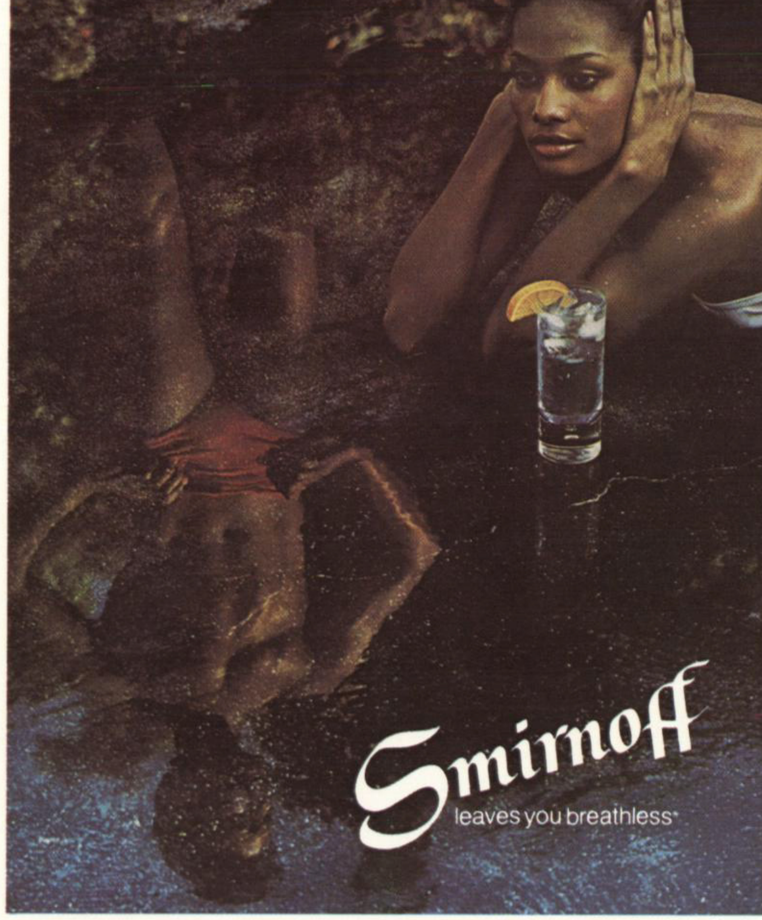
Stuart D. Watson

Stuart D. Watson
Chairman

Hicks B. Waldron

Hicks B. Waldron
President

BEVERAGE OPERATIONS



Smirnoff Vodka, Heublein's flagship brand, has sales exceeding 11 million cases, making it the best-selling spirits brand internationally. A vital force in Smirnoff's growth has been advertising and promotion that dares to be different. The in-store display, above, and magazine advertising, center, aim repeatedly at the growing, active, trend-setting consumer market.

WHILE the shift in consumer taste patterns accelerated during the year — heightening the challenge to the alcoholic beverage industry — Heublein maintained its leadership position in the healthiest segments of the business.

Sales and revenues from Heublein's beverage operations, including both the Spirits Group headquartered in Hartford and the Wines Group based in San Francisco, totaled $838.5 million, a two per cent decrease from a year ago. Operating income was unchanged at $72.9 million.

Overall demand for distilled spirits in the U.S. was relatively flat in 1977, but non-whiskies grew at a rate of about four per cent. Vodka, cordials, tequila and prepared cocktails — all categories of prime importance to Heublein — registered new gains. By contrast, several market segments, notably Bourbon and blends, slipped considerably below sales levels of a year ago.

U.S.-produced wines encountered sales slippage in the first half, but the market was turning upward again toward the end of the year. United Vintners Inc., Heublein's largest California wine company, turned in a superior performance in the premium table wine business but had a downturn in sales of dessert and refreshment wines, as did the industry.

In distilled spirits, vodka continued as the nation's No. 1 selling spirit during the year and outstripped the other major categories in case growth. Vodka's growth rate,

however, was more modest than in recent years. But Heublein vodkas grew faster than the category as a whole.

Smirnoff is the leading vodka brand in the U.S. and the best-selling spirits brand internationally. It's the premiere liquor label in Heublein's spirits line. In terms of retail sales, Smirnoff once again grew at a rate faster than the total vodka category. Shipments grew at a somewhat slower rate than retail sales, as many wholesalers worked off excess inventories.

Smirnoff made particularly strong gains in the Southeast, upper Midwest, Southern California and in New York City, the largest single U.S. metropolitan liquor market.

Heublein's other important vodka brands, Relska and Popov, both ended the year with substantial sales increases — greater percentage gains than Smirnoff, but on considerably smaller volume bases.

Other leading Heublein brands showing increased business for the year included Black Velvet Canadian Whisky, Heublein Full-Strength Cocktails, The Club Cocktails, Jose Cuervo Tequila, Don Q Rum, Lancers Wines and Harveys Bristol Cream Sherry.

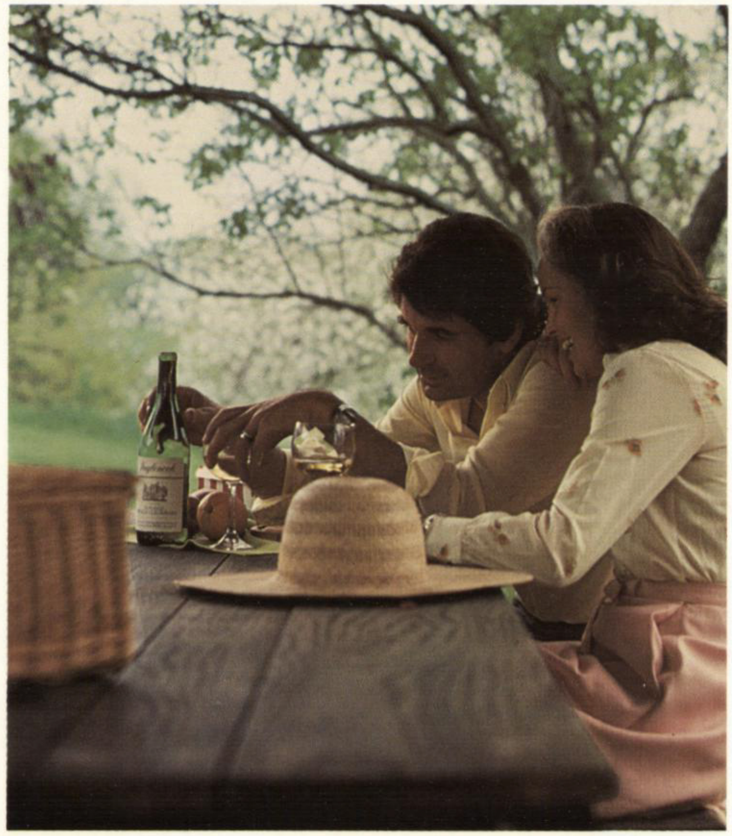
The Spirits Group successfully introduced several new products during the year to serve the increased consumer demand for new flavors.

The introduction of Boggs Cranberry Liqueur, a uniquely American premium-priced liqueur, met with broad success among consumers, despite its retail price of $12 or more per liter in some markets.

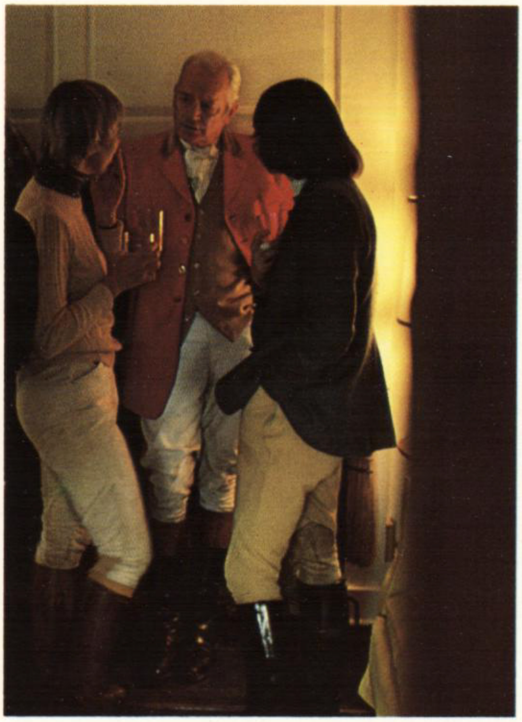
New additions in the Heublein bottled Cocktail line — the Grasshopper, the Brandy Alexander and the Pink Squirrel — all were favorably received. Consumer interest was heightened by a national promotion that showed how these new products are used with dessert recipes. The Strawberry Margarita and the Strawberry Daiquiri were popular additions to The Club Cocktails line.

Malcolm Hereford's Cows, 30-proof drinks first marketed in fiscal 1975, finished the year among the industry's top 50 brands, although sales were off substantially from the record-breaking introductory period. In this, their first full year of national distribution, Hereford's Cows again returned a substantial profit to the company. Usually the profit return on a new spirits brand comes only after three to five years because of heavy introductory marketing and sales costs. New flavors, including French Vanilla and Holiday Spice, helped enhance consumer interest in Hereford's Cows during the year.

Table wines continue to grow in popularity as more and more Americans discover their good taste, their good value and pleasant occasions for enjoying them. Counterclockwise: Inglenook Navalle's moderate-priced white wine complements a quiet picnic; a supermarket's wide selection of Colony wines is proudly displayed by United Vintners' sales vice president G. T. (Ted) Eisenberg; Colony Cabernet Sauvignon is advertised on television; while the occasion for dining out is enhanced by a choice of Beaulieu Vineyard's Vintage Burgundy or Lancers Vin Rose from Portugal.




1970
Beaulieu
Vineyard
BV
BURGUNDY



Yukon Jack Canadian Whisky liqueur, introduced two years ago, added an 80-proof version to supplement the original 100-proof and achieved broader retail distribution and continued sales growth.

Black Velvet Canadian experienced only a modest sales gain compared to its phenomenal growth of recent years but still strengthened its position in the Canadian Whisky market.

Jose Cuervo Tequila maintained its category leadership and also increased its position in the tequila market. Cuervo 1800, a super-premium gold tequila, made major distribution gains, especially in California and other western markets.

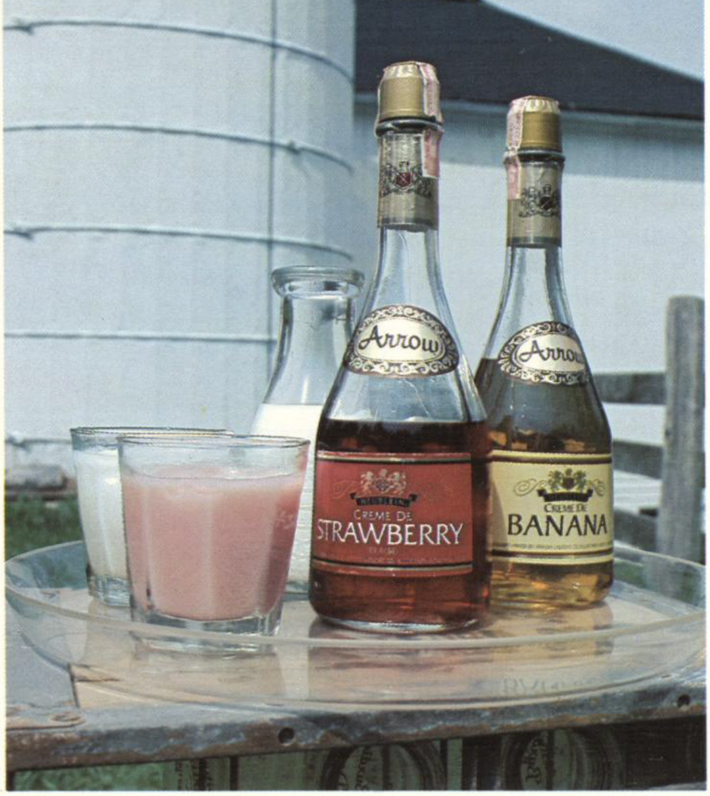
Arrow Cordials, a leading seller in this category, experienced an interruption in its growth pattern of previous years, which had benefited from the addition of several new flavors to the line.

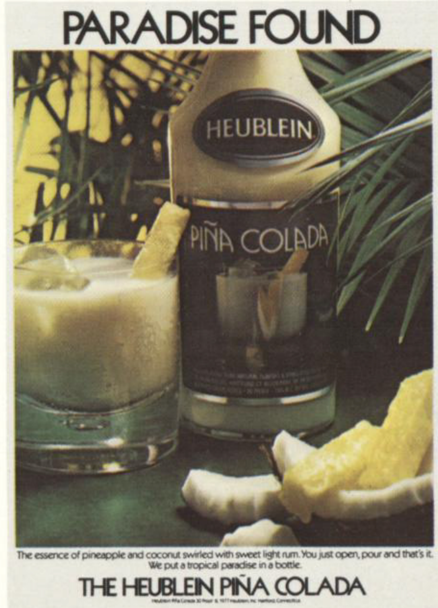
It is significant that in a year of general softening in the spirits market, Heublein's products generally were able to maintain a sales momentum that set it apart from the spirits industry once again.

This was accomplished, in part, by the implementation of several innovative business strategies, including key-market merchandising and sales programs. For example, funds were concentrated in markets with the highest potential dollar return. At the same time, other non-marketing costs and expenses were re-examined and reduced wherever possible.

Americans follow a wide variety of sports and treat their tastes to a wide variety of drinks. Whether it's Harveys Bristol Cream sipped after the hunt, or a Jose Cuervo "Gorilla Sweat" for the downhill racer, Heublein has been most inventive in serving the sports-minded market. The Jose Cuervo Para-Ski Championships, held annually at Sun Valley, Idaho, is a widely televised event.


MAKE TROPI-COWS
WITH HEREFORD'S COWS.





The Spirits Group's sales organization was realigned to increase manpower and brand thrust in such major markets as New York City, Chicago, Los Angeles and San Francisco, which together constitute a substantial share of the total spirits and wine business.

In addition to the construction of a new distilled spirits plant at Paducah, Ky., which was begun early in the fiscal year, sizable warehouse and processing projects were implemented at the Spirits Group's other three facilities in Hartford, Conn., Allen Park, Mich. and Menlo Park, Calif.

The new Paducah plant continued to move toward completion, despite severe winter weather at the site. The plant is expected to begin operation late in fiscal 1978. In addition to increasing the Spirits Group's production capacity, the new plant will enhance manufacturing and distribution efficiencies.

As the Spirits Group moved toward fiscal 1978, several major programs were being readied to reinforce the continued forward thrust of the company's alcoholic beverage business.

Smirnoff, already one of the most heavily-advertised spirits brands in the world, was scheduled for even more marketing emphasis, with exciting new directions in its advertising approach.

Plans also called for increased new product activity throughout the Spirits Group, including line extensions to existing major brands and entirely new product concepts.

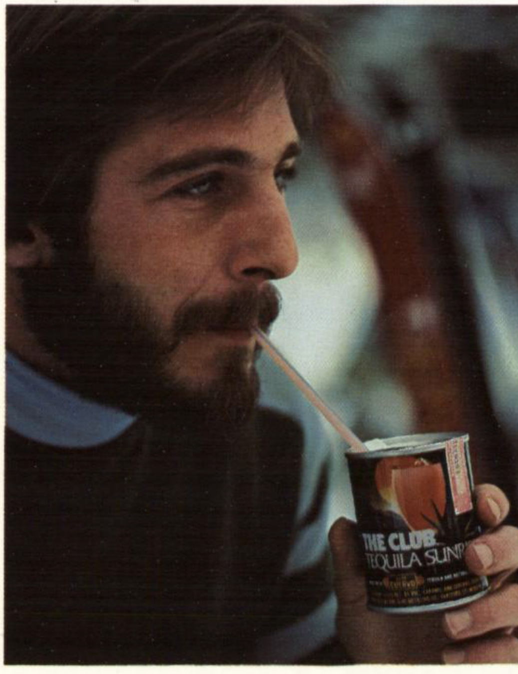
An emerging trend toward exotic mixed drinks, particularly in the nation's bars and restaurants, is receiving greater impetus from an intensified promotional effort in behalf of Hereford's Cows.

The U.S. wine business also was characterized by changing taste patterns during the year, an unexpectedly low rate of growth and increased competition for the consumer dollar.

According to industry estimates, total shipments of U.S.

For some time now there's been a growing consumer trend toward light, flavorful drinks, and Heublein maintains a strong front-running position with brands such as Heublein Cocktails, Arrow Liqueurs and Malcolm Hereford's Cows. Shown here are some of the newest Heublein drinks as they were marketed and enjoyed. Opposite is one of the more than 2,000 colorful subway posters advertising Heublein drinks throughout the important New York City market.

Eye-stopping outdoor advertising is one way Heublein promotes its brands, including The Club Cocktails and Black Velvet Canadian Whisky. The fine imported products marketed by Heublein, right, appeal to almost every taste with Scotch, Irish and Canadian spirits, Puerto Rican rum and Spanish brandy.



wines by producers decreased approximately two per cent for the year. More promising, however, was the estimated five per cent growth rate for table wines. Premium table wines enjoyed a particularly strong year with shipments increasing about 20 per cent, and United Vintners' Inglenook brand exceeded the industry growth rate once again.

United Vintners took several steps to strengthen its long-term competitive position in the changing wine market. Product lines were consolidated, manufacturing efficiency was increased, the sales and marketing staffs were re-organized, marketing research was expanded, and more emphasis was placed on new product development.

Results for the year were below expectations, but it was United Vintners' second most profitable year despite the decline in refreshment wines. Except for this one category, volume was at a high level.

Chief cause of the downturn was the sharp drop in retail sales of refreshment wines. The United Vintners' brands most affected by this trend were Annie Green Springs and T. J. Swann, both of which had achieved record sales levels in 1976.

Another major sales trend in 1977 was the growing demand for table wines, a trend paced by United Vintners' Inglenook Vineyards brand. Already one of the fastest-growing major brands of California wine, Inglenook had another record sales year with a case volume increase of more than 30 per cent. Demand was particularly strong for Inglenook's moderately-priced Navalle series.

The new Colony line of varietal table wines, introduced in 1976, continued to grow in sales. The remainder of the Italian Swiss Colony line, including non-varietal table wines and dessert wines, had a drop in sales, as consumer demand for sweet dessert wine continued to decline steadily.

As the wine business turned more and more to table wines, United Vintners this year moved to improve its table wine production facilities at Asti and Escalon, Calif. and also expanded its winery at Oakville, Calif.

Heublein's other California wine company, Beaulieu Vineyard, continued to have strong consumer demand for its premium estate-bottled wines, which again won wide acclaim from wine experts.

FOOD OPERATIONS

Appetizing chicken, service with a smile, and an inviting atmosphere for dining out are all features of Kentucky Fried Chicken's first new image store recently opened in Columbus, Ohio. It's the forerunner of more to come.

HEUBLEIN'S domestic food operations, which now account for about a third of corporate revenues, had mixed results in fiscal 1977. Total revenues for the year were $487.2 million, virtually unchanged from last year, but operating income declined 41 per cent to $30.8 million.

Revenues came from two operating groups — the Food Service and Franchising Group, which had a slight drop in revenues for the year, and the Grocery Products Group, which had another healthy sales gain.

This occurred in a year when changing food-buying habits, part of a sweeping change in U.S. lifestyle, became more evident. The strongest force for change is coming from that large young adult portion of the population who are trend-setters and for whom fast foods are a way of life.

A decade ago, 20 cents of the family food dollar was being spent for food away from home. Today that figure has soared to 36 cents, and it could reach 50 cents by 1980, according to industry predictions. Quick-service restaurants are winning a larger share of this growing market.

With the adult population increasing, more wives working, family incomes growing but the proportion of discretionary dollars declining, meals must satisfy more adult demands for taste, variety and value. A fast-food industry that started by catering a great deal to the very young is now having to serve foods to more and more Americans of all ages. Consequently, price-value is more of a factor in the buying decision. Product quality, service, cleanliness and convenience — especially true time-saving convenience — are the keys to that decision.

Aware of this, KFC is determined to position itself for new opportunities and is hard at work improving its product quality, service, cleanliness and convenience.

It's working from a well-founded base:

— Total sales of Kentucky Fried Chicken by franchisees increased this year, and franchisees built 173 new stores.

Kids everywhere love Colonel Sanders and they love his chicken even more.

— Among consumers, KFC has shown the highest top-of-the-mind awareness of any of the chicken chains. It is still a strong No. 1 in the chicken segment of the quick-service restaurant industry.

— With 4,200 U.S. stores, KFC has five times the number of its nearest chicken competitor, a major advantage in terms of consumer awareness, convenience and service.

— Most KFC franchisees are experienced, financially strong and dedicated to the growth of their businesses.

— KFC out-advertises all others in the quick-service chicken business by a wide margin.

The thrust of action programs now underway is to capitalize on these strengths and to do a better job of managing the KFC stores. The goal is to show consumers that KFC offers better chicken and a better value.

The Food Service and Franchising Group was restructured at mid-year, establishing separate divisions for Kentucky Fried Chicken, Zantigo Mexican-American Restaurants, and H. Salt Seafood Restaurants. This will provide greater concentration on the needs of each area, a leaner organization and less overhead costs.

Continuing its policy of re-franchising KFC stores in smaller, outlying areas where franchisees can operate them more efficiently and more profitably, the parent company re-franchised more than 100 stores this year.

A decline in performance at some franchised and many company owned stores was attributed to problems that showed up in a consumer research study, which indicated the need for improvements in product quality, store appearance and customer service. As detailed below, corrective programs to meet these needs are now underway.

A QSC program (Quality, Service and Cleanliness), strongly backed by Colonel Sanders, got top priority and from the outset store personnel and supervisory employees responded well. This program is being intensely pursued.

Greater improvements will be realized from two new training programs. One, an in-store program called STAR (Store Training and Rating), utilizes audio-visual and printed materials to teach all the jobs in a KFC store. It's being used by both company and franchised stores.

The second program, for store managers, is being conducted at an expanded and modernized training center in Louisville, completed early in the new fiscal year.

Mexican foods are growing faster in popularity than any other ethnic food. Heublein is tapping that popularity with its chain of Zantigo Mexican-American fast-food restaurants.

Besides teaching basic management and operations techniques to new franchisees and managers, it provides refresher training to existing franchisees and their employees. It also offers courses to "train the trainers" for both company and multi-store franchised operations.

Store image is a critical factor in the fast food business. After extensive study and testing, KFC has completed a new image store, the first of which opened for business in Columbus, Ohio, this year. A terra-cotta-colored, mansard roof replaces the large spreading cupola which is retained for identity in smaller form. The inside has a warmer atmosphere because of new interior colors, fixtures and furnishings. Complementing the new interior is a new exterior landscape design.

In Columbus, it met with prompt approval from consumers. Franchisees, many of whom were involved in deciding on the design, strongly favor the new store and many have started to convert their older buildings.

With the new image store beginning to take its place on the KFC scene, the intensified effort being put on quality, service and cleanliness, and other actions taken to increase the efficiency of the system, KFC is looking toward revitalizing its entire business starting with this year.

In another move to concentrate its energies and resources, the company announced at year-end that it will phase out its marginally profitable supply and distribution operations over the next year. The phase-out period should allow for an orderly reduction of inventories, fixed assets and receivables.

The Food Service and Franchising Group includes two other restaurant operations: H. Salt Seafood Restaurants and Zantigo Mexican-American Restaurants.

H. Salt Seafood Galleys did not perform up to expectations this year and the concept is being re-evaluated. Some improvement did occur after it was established as a separate division. However, there are no plans to build additional Seafood Galley units or to expand the franchise base significantly this year.

Our chain of Zantigo Mexican-American Restaurants had a successful year with sales per store exceeding expectations. They offer a menu of Mexican-American foods ranging from a quick snack for about 75 cents to a full meal for $2.00. All have in-store seating and most have a drive-up service window for take-home customers.

More than 50 Zantigo Restaurants are now operated by the company and by franchisees in the Midwest. Plans call for doubling that number in 1978. There is a growing U.S. consumer demand for a wider choice of foods, including ethnic foods, and Zantigo serves this trend.

It will be a while before the results of all the improvements undertaken by the Food Service and Franchising Group can be counted, but consumer reaction so far has been encouraging.

The supermarket industry, prime market for Heublein's

Ortega-brand packaged Mexican foods is a widely-recognized premium brand sold through U.S. supermarkets, particularly in the west and southwest. As its advertising says, Ortega makes dining a festive occasion. To help meet the growing demand for Ortega Chiles, Heublein agronomist Phil Villa, opposite, is working to develop new varieties of hardier, higher-yielding chile peppers.

Grocery Products Group, experienced more price stability this year than it has in several years. But consumers were uneasy about economic conditions and expressed their uncertainty by shopping harder, switching brands and crossing product category lines frequently in response to even minor price changes.

Despite this volatility in the market, the Grocery Products Group reached a milestone by topping $100 million in sales for the first time. The growth came mainly from increased sales of Ortega Tacos, Chiles and Sauces. Established brands such as A.1. Steak Sauce, Grey Poupon Dijon Mustard and Regina Wine Vinegars also did well.

The Group's other big market is the food service industry, including restaurants, hotels, cafeterias and other institutional buyers. To serve this large and growing market better, the nucleus of a separate food service sales and marketing organization was established in 1977.

This was part of a general strengthening of the Group's management team. Several key staff and line management positions were filled, and added emphasis given to better integration of planning and operations.

As a measure to reduce costs and improve efficiencies, production of industrial pimientos for sale to other food processors was discontinued because it was only marginally profitable.

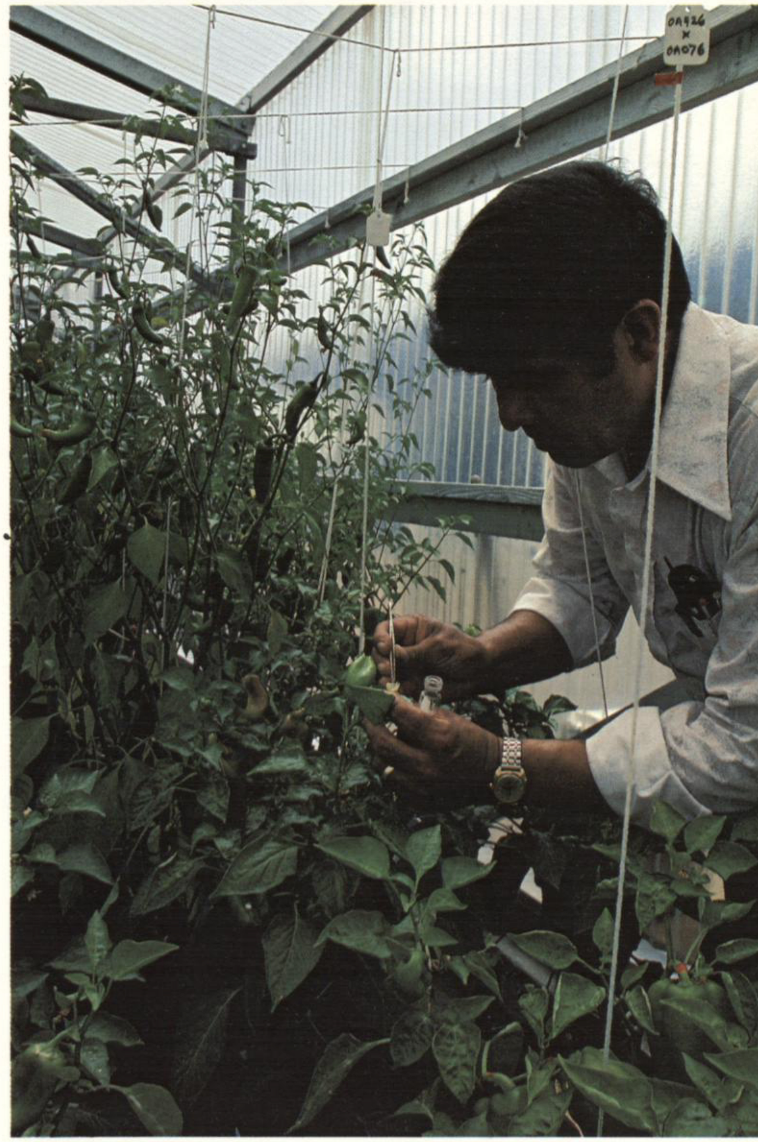
Production efficiency improved at Hart's Bakeries and at the Ortega Tacos plant in Stoughton, Wisconsin, where a new high-speed production line was installed to help meet the increased demand. When Heublein entered the taco business just three years ago, Ortega Tacos were a relatively minor brand with regional distribution. Now, they are the best-selling brand, with national distribution. The major factors in this rapid growth have been effective advertising and intensive quality improvement.

The Ortega product line was expanded this year with the successful introduction of five bottled Mexican sauces and two varieties of refried beans — True Bean and Lightly Spicy. A new promotional campaign which stresses the use of Ortega Chiles as flavor enhancers in non-Mexican dishes resulted in increased market share.

Supermarket sales of Mexican-type foods are growing faster than any other major category of ethnic food and the Ortega line is sharing in this growth.

There was intense competition in the meat sauce business this year, but A.1. Steak Sauce, a favorite with Americans since 1906, met the challenge with another solid performance. It continues to be the nation's most popular meat sauce and one of Heublein's most profitable brands. A new A.1. marketing and sales campaign completed this year will be introduced in the new fiscal year.

Mustard is a slow-growth category in the United States, but Heublein's Grey Poupon brand has proved the exception. With advertising copy and media outlets designed to reach a well-defined audience, it has become the nation's No. 1 Dijon-type mustard. It had a substantial sales increase this year.



INTERNATIONAL OPERATIONS

Despite strong performances by Kentucky Fried Chicken and Smirnoff Vodka in overseas markets, Heublein's International Group was unable to offset operating difficulties in Brazil that began to intensify about last fall.

As a result, total International Group revenues for the year declined four per cent to $225 million from $235 million in fiscal 1976. Operating income was down 23 per cent to $15.5 million from $20.3 million.

Exclusive of its Brazilian liquor business, the Group's world-wide revenues showed a healthy increase.

It was an excellent year for Smirnoff in the more than 50 foreign countries where it is sold. Total case sales outside the U.S. increased 11 per cent in fiscal 1977. Similarly, Kentucky Fried Chicken either met or exceeded sales expectations in most of the 44 overseas countries where it has outlets.

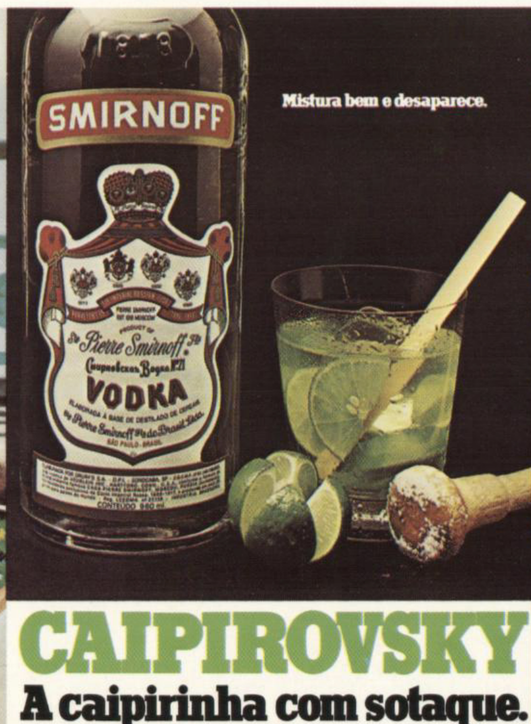
This performance was especially encouraging when measured in a business atmosphere of foreign economies beset by the twin pressures of accelerating energy costs and inflation. Adding to the problems faced by American companies operating abroad, the U.S. dollar continued to strengthen against most foreign currencies during the year.

Brazil emerged as the problem area for the International group, one that could not be successfully counter-balanced by the positive world-wide results in other countries.

Our Drury subsidiary — Brazil's largest liquor company — saw operating costs pushed sharply upward by continuing high inflation and increased short-term interest rates that ran as high as 60 per cent, double those of 1976. It was squeezed between these higher costs and over-abundant inventories in the liquor distribution system. These pres-

South Africa: *"They think we're just friends, but we've discovered Smirnoff."*

Brazil: *"Smirnoff — it mixes and then disappears."*



The United Kingdom: *"You drink it for what it is."*

sures cut into sales volumes and complicated attempts to sustain needed price increases.

Toward year-end, Heublein took several actions aimed at improving its competitive position in Brazil:

1. Drury's was strengthened by a major re-organization and infusion of experienced executives in new positions of administration, marketing, and finance and control.

2. Moves were made to formalize and limit the extremely flexible credit and discount terms that have long been a standard practice in Brazil's alcoholic beverage industry. Accounts receivable have been reduced by almost half in the last few months. The company's new policies are more appropriate to Brazil's current economic climate.

3. Extensive marketing research is being conducted to provide greater understanding of the emerging Brazilian mass consumer market. New products are being developed to meet the opportunities of this market.

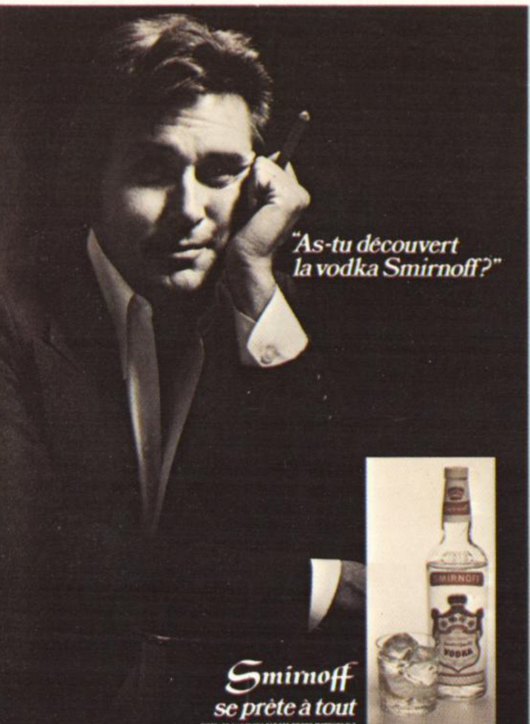
4. Drury's marketing resources are being concentrated on the company's six major brands that already have strong consumer franchises. In focusing on these key brands, other marginally profitable brands will be pruned from the product line.

While management believes it has identified the primary difficulties and opportunities in its Brazilian liquor business — and is moving expeditiously to remedy most of the problems in fiscal 1978 — it envisions no quick return to significant profit levels.

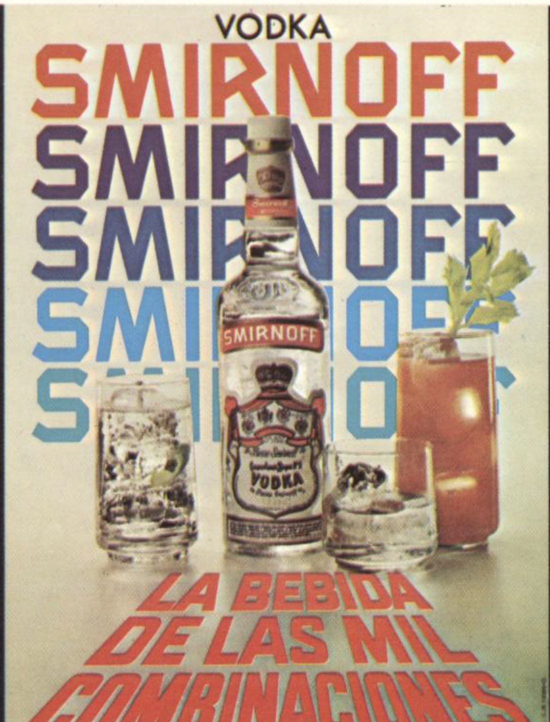
Heublein's other major beverage company in Brazil is Dreher, S.A., a producer of wine and brandy products. With a different competitive situation and without the penalty of heavily-taxed imported raw materials, Dreher had a record year in sales and profits.

International markets continue strong for Kentucky Fried Chicken and Smirnoff Vodka. Advertising keyed to the characteristics of local markets and done by local agencies has been a key factor in Smirnoff's steady, successful growth overseas. A sampling of Smirnoff ads from abroad is shown below.

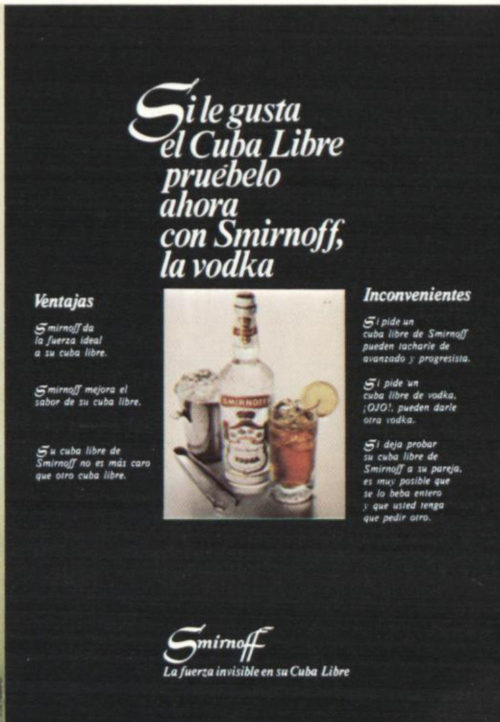
Canada: *"Have you discovered Smirnoff Vodka?"*



Mexico: *"Smirnoff — the drink of a thousand combinations"*



Spain: *"If you like the Cuba Libre, try it now with Smirnoff, the vodka."*



Also, because its products are generally priced at lower levels than those of Drury, Dreher was less affected by Brazil's volatile economic conditions. One of its new products, Drink Dreher, a vermouth-like aperitif, registered a sales gain of 30 per cent.

Outside of Brazil, Heublein's international business continued its strong growth pattern as the almost universal appeal of both Kentucky Fried Chicken and Smirnoff was demonstrated in the major world markets.

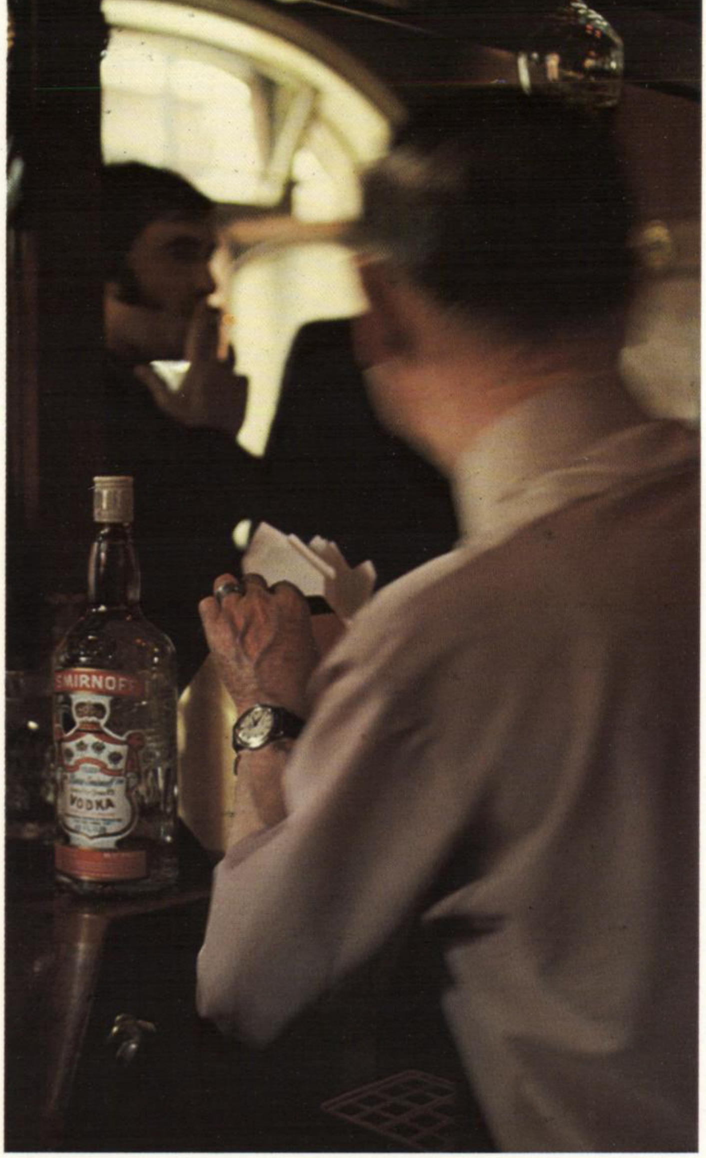
KFC's revenues for the year were up substantially, despite currency devaluations in several of its chief markets. Its business was especially strong in Japan, New Zealand and Australia. Even the United Kingdom came back well after the economic problems of 1975-76. A total of 52 new KFC outlets were opened during the year, bringing the total to 832 units in the international KFC system.

In Australia, where KFC already is the leader in the fast-food business, the company further strengthened its position by moving at year's end to acquire 24 stores from a local franchisee. New product introductions, such as corn on the cob and new retail pack sizes, helped to reinforce KFC's leadership image in Australia. Japan, one of KFC's most successful overseas markets, saw 15 new units opened, while Australia and New Zealand continued to lead all KFC stores around the world in per-store sales averages.

The trend to light, flavorful drinks that brought revolutionary changes to the U.S. alcoholic beverage industry is now repeating itself in world markets. And just as in the U.S., the product in the forefront is Smirnoff Vodka.

Smirnoff's international popularity grew again in 1977 with total case sales surpassing the 5-million case mark for the first time. The United Kingdom became the first country outside the U.S. with Smirnoff sales exceeding a million cases a year. Sales in Canada also neared the million-case level, and sizable sales gains were achieved in Sweden and Norway.

Late in 1976, Heublein acquired a minority interest in Jose Cuervo in Mexico, a leading producer of tequila. Heublein is working closely with the Cuervo management team to strengthen its expansion programs in Mexico and the U.S. and in other export markets around the world.



On these pages are some highlights from Heublein's international operations. Clockwise, from top left: Smirnoff called for in a fashionable English pub; three of the company's brands that are among the most popular in Brazil; passengers enjoying Heublein's Old Eight Whisky on a Brazilian airliner; a Kentucky Fried Chicken store in Australia, the leading international market for KFC, and a happy KFC customer in Japan.

NEW FACILITIES

Continuing its policy of recent years, Heublein provided for future growth with a high level of investment this year in modern, efficient production facilities. Above is the Grocery Products Group's new plant in Oxnard, California, and a high-speed line for handling A.1. Steak Sauce, Ortega Chiles and other GPG products. Opposite, above, is the Spirits Group's plant now under construction in Paducah, Kentucky. Below, the new distillery in Sorocaba, Brazil, which is the largest and most modern distillery in the Southern Hemisphere.


Drury's
Drury's

Summary of Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. The Company's investments in affiliated companies (not majority-owned) are accounted for on the equity basis and the Company's operating results include its share of their operations. All significant intercompany transactions are eliminated in consolidation.

Translation of Foreign Curriencies
Effective July 1, 1976, the Company adopted the method of accounting for foreign currency translation as set forth in Statement of Financial Accounting Standards No. 8. The effect on income in fiscal 1976 and prior years was immaterial and no restatement was required.

Inventories
Inventories are stated at the lower of cost or market, cost being determined by the first-in, first-out method, except certain bulk whiskey and wine, the cost of which has been determined by specific lots.

Whiskey and wine in storage for aging over a number of years is included in current assets in accordance with general industry practice.

Property, Plant and Equipment
Depreciation and amortization generally are computed by the straight-line method over the estimated useful lives of the respective assets or the terms of the related leases. On sale or retirement, the asset cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in income. Expenditures which extend the useful lives of assets are capitalized while maintenance and repairs are charged to income as incurred.

Cost in Excess of Net Assets of Purchased Businesses, Trademarks, Contracts and Franchises
Cost in excess of net assets of purchased businesses, in general, is being amortized over periods ranging from 10 to 40 years. An amount of $4,016,000, relating to an acquisition prior to November 1, 1970, is not being amortized.

Trademarks, contracts and franchises are carried at cost less amortization which is being provided principally on a straight-line basis over periods ranging from 5 to 20 years.

Franchise and License Fees
Initial franchise fees are recorded as income on the date the store is opened by the franchisee. Monthly fees from franchisees and licensees are accrued as earned based on their sales.

Taxes
Deferred income taxes result from timing differences between tax and financial recognition of income and expense. The principal items causing timing differences are provisions for losses on disposition of discontinued operations and accelerated depreciation.

The investment tax credit is deducted from federal income tax expense in the year in which the related asset is placed in service.

United States and Canadian excise taxes constitute a lien on in-bond inventories. Since these taxes are not payable until withdrawal from bond or after twenty years, whichever is earlier, excise taxes have not been accrued with respect to such inventories in accordance with industry practice.

Pension Plans
The Company has non-contributory retirement plans which cover substantially all full-time domestic employees except certain employees covered by union pension plans. Under collective bargaining agreements, the Company makes contributions to various pension plans for certain union employees. Pension costs charged to current earnings include charges for current service and amortization of prior years' service costs over 30 years. The Company's policy is to fund amounts accrued.

Earnings Per Share
Earnings per common and common equivalent share are based upon (1) the average number of shares of the Company's common stock outstanding during the year, (2) the number of shares issuable on the exercise of dilutive stock options (after reduction for common shares assumed to have been purchased with the proceeds) and (3) the number of shares issuable upon conversion of the outstanding Series B preferred shares.

Earnings per share assuming full dilution are determined on the further assumption that all remaining outstanding dilutive convertible securities were converted as of the beginning of each year, giving effect to the resultant reduction in interest costs net of applicable taxes and that certain additional dilutive stock options were exercised (after reduction for common shares assumed to have been purchased with the proceeds).

Audit Committee of the Board of Directors
The Audit Committee of the Board of Directors consists of three members who are not officers of the Company. The Committee meets periodically during the year with the Company's financial management and its independent accountants to review internal control procedures and both internal and external audit plans and audit results.

Consolidated Statement of Income

Dollars in thousands except per share data	Year ended June 30, 1977	1976
Revenues:		
Net sales	$1,511,188	$1,546,400
Franchise and license fees	39,714	36,733
	1,550,902	**1,583,133**
Costs and expenses:		
Cost of sales	1,093,600	1,099,416*
Selling, advertising, administrative and general expenses	338,042	338,454
	1,431,642	1,437,870
Operating income	119,260	145,263
Other income (deductions):		
Interest expense:		
Long-term debt	(13,267)	(13,286)
Other	(16,284)	(5,208)
Interest income	2,726	2,810
Miscellaneous—net	3,861	763*
	(22,964)	(14,921)
Income from continuing operations before income taxes	96,296	130,342
Income taxes:		
Federal	37,560	49,066
State	5,163	9,364
Foreign	4,805	6,003
	47,528	64,433
Income from continuing operations	**48,768**	**65,909**
Discontinued operations:		
Income (loss) from poultry operations, less tax effect	(520)	7,184
Provision for discontinuance of poultry operations including operating losses during phase-out period, less tax effect	(6,680)	—
	(7,200)	7,184
Net income	**$ 41,568**	**$ 73,093**
Earnings per share:		
Primary:		
Continuing operations	**$2.28**	**$3.06**
Discontinued operations	(.34)	.33
Net earnings	**$1.94**	**$3.39**
Fully diluted:		
Continuing operations	**$2.23**	**$2.96**
Discontinued operations	(.31)	.31
Net earnings	**$1.92**	**$3.27**

See accompanying notes and summary of accounting policies.
*Reclassified to conform to 1977 presentation.

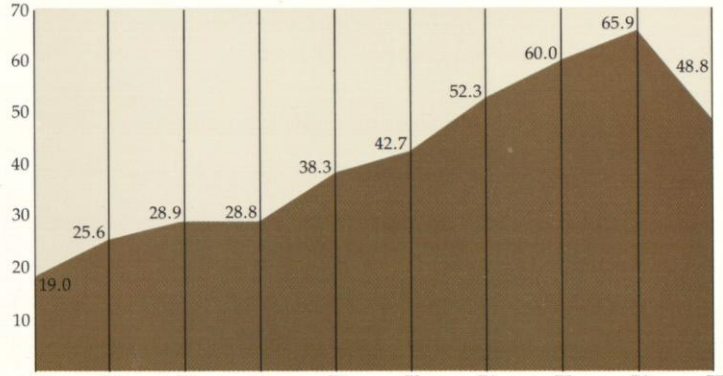
Consolidated Balance Sheet

Dollars in thousands	June 30, 1977	1976
ASSETS		
Current assets:		
Cash	$ 23,848	$ 18,881
Marketable securities, at cost which approximates market	9,838	3,000
Accounts and notes receivable	188,162	221,857
Inventories:		
Finished products	78,841	72,656
Products in process	3,775	10,594
Bulk whiskey and wine	109,548	91,018
Raw materials	27,203	37,485
Total inventories	219,367	211,753
Prepaid expenses	10,164	7,325
Total current assets	**451,379**	**462,816**
Investment in and advances to affiliated companies	**15,857**	**14,579**
Property, plant and equipment, at cost:		
Land and land improvements	43,043	41,782
Buildings	97,032	94,143
Machinery and equipment	168,045	167,737
Leasehold improvements	44,242	42,329
Construction in progress	25,755	18,527
	378,117	364,518
Less accumulated depreciation and amortization	113,129	109,960
Net property, plant and equipment	**264,988**	**254,558**
Other assets:		
Properties and other assets not used in continuing operations	7,050	10,876
Cost in excess of net assets of purchased businesses	50,645	53,481
Trademarks, contracts and franchises	3,006	3,406
Deferred income taxes	122	1,115
Other	26,072	23,271
	86,895	**92,149**
	$819,119	**$824,102**

	June 30, 1977	June 30, 1976
LIABILITIES		
Current liabilities:		
Notes payable	$ 31,596	$ 29,510
Current portion of long-term debt	2,839	3,872
Accounts payable	53,698	60,332
Accrued expenses	56,419	47,851
Taxes:		
Federal, state and foreign income taxes	19,454	26,977
Deferred income taxes	451	8,953
Excise taxes	29,691	36,485
Other taxes	11,164	9,597
Cash dividends payable	7,057	6,395
Current portion of reserve for discontinued operations	3,671	2,500
Total current liabilities	**216,040**	**232,472**
Long-term debt, due after one year	**198,266**	**201,441**
Reserve for discontinued operations	**8,779**	**10,490**
Other long-term liabilities and deferred income	**3,587**	**3,229**
Minority interest	**3,890**	**3,568**
SHAREHOLDERS' EQUITY		
Preferred stock	1,513	1,940
Common stock	10,605	10,578
Additional paid-in capital	143,793	141,973
Retained earnings	232,976	218,741
	388,887	373,232
Less treasury stock, at cost	330	330
Total shareholders' equity	**388,557**	**372,902**
	$819,119	**$824,102**

See accompanying notes and summary of accounting policies.

Income-Continuing Operations (IN MILLIONS OF DOLLARS)



Consolidated Statement of Additional Paid-In Capital

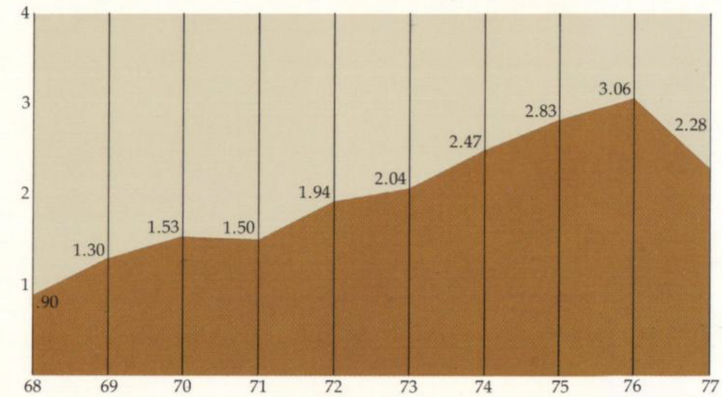
Dollars in thousands	Year ended June 30, 1977	1976
Balance at beginning of year	**$141,973**	**$141,256**
Excess of option price over stated value of common stock issued on exercise of options	1,352	496
Excess of stated value of preferred stock converted over stated value of common stock	24	127
Tax benefit from disqualifying dispositions of shares issued under stock option plans	444	94
Balance at end of year	**$143,793**	**$141,973**

Consolidated Statement of Retained Earnings

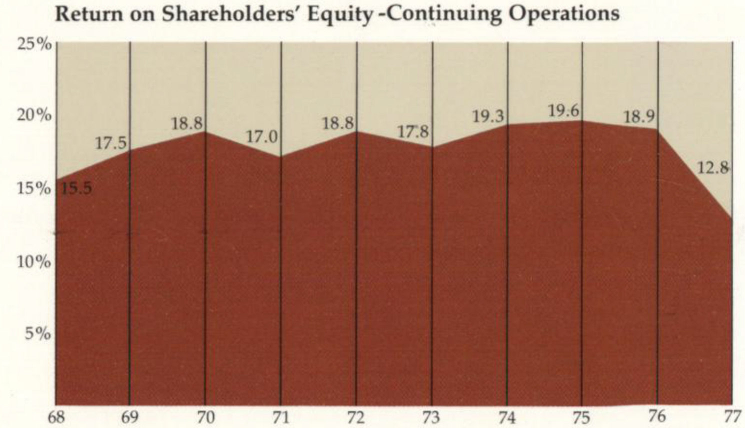
Dollars in thousands except per share data	Year ended June 30, 1977	1976
Balance at beginning of year	**$218,741**	**$170,486**
Net income	41,568	73,093
Cash dividends declared on common stock—$1.29 per share ($1.175 in 1976)	(27,333)	(24,838)
Balance at end of year	**$232,976**	**$218,741**

See accompanying notes and summary of accounting policies.

Earnings Per Share - Primary - Continuing Operations (IN DOLLARS)



Return on Shareholders' Equity -Continuing Operations



Heublein

Consolidated Statement of Changes in Financial Position

Dollars in thousands	Year ended June 30, 1977	1976
SOURCES OF WORKING CAPITAL		
Continuing operations:		
Income from continuing operations	$ 48,768	$ 65,909
Charges (credits) not requiring funds:		
Depreciation and amortization	23,714	20,778
Deferred income taxes	993	4,087
Equity in earnings of unconsolidated affiliates	(1,785)	(2,919)
Minority interest in earnings of subsidiaries	322	682
Funds provided from continuing operations	72,012	88,537
Discontinued operations:		
Income (loss) from discontinued operations	(520)	7,184
Provision for phase-out of discontinued operations	(6,680)	—
Charge not requiring funds — Depreciation	404	1,579
Funds provided from operations	65,216	97,300
Book value of assets sold, including properties not used in continuing operations	28,335	4,449
Increase in long-term debt	2,258	1,858
Proceeds from exercise of stock options	1,379	565
Tax benefit from disqualifying dispositions of shares issued under stock option plans	444	94
Changes in other long-term liabilities and deferred income	358	1,050
Other changes in investment in and advances to affiliated companies	298	(7,557)
Increase in common stock and additional paid-in capital resulting from conversions of preferred stock	24	129
Other—net	569	250
	98,881	**98,138**
USES OF WORKING CAPITAL		
Additions to property, plant and equipment	55,819	52,223
Cash dividends	27,333	24,838
Reduction of long-term debt	5,433	4,476
Increase in other assets	2,801	2,371
Reduction of long-term portion of reserve for discontinued operations	1,711	1,773
Redemptions and conversions of series preferred stock	427	709
Additions to cost in excess of net assets of purchased businesses, trademarks, contracts and franchises	362	939
	93,886	**87,329**
Increase in working capital	**$ 4,995**	**$ 10,809**
CHANGES IN WORKING CAPITAL		
Cash and marketable securities	$ 11,805	$(18,548)
Accounts and notes receivable	(33,695)	48,881
Inventories	7,614	15,667
Prepaid expenses	2,839	313
Notes payable and current portion of long-term debt	(1,053)	(17,637)
Accounts payable, accrued expenses and taxes	19,318	(17,429)
Cash dividends payable	(662)	(538)
Current portion of reserve for discontinued operations	(1,171)	100
Increase in working capital	**$ 4,995**	**$ 10,809**

See accompanying notes and summary of accounting policies.

Notes to Consolidated Financial Statements

Acquisitions

In fiscal year 1976, the Company purchased 25% interests in two foreign companies for $8,310,000. The $4,632,000 excess of purchase prices over the interests in the net assets acquired is being amortized over 40 years. The Company's equity in these operations, which was not material, has been included in the accompanying financial statements from the effective dates of acquisition.

Foreign Subsidiaries

The accompanying consolidated financial statements include the accounts of the Company's foreign subsidiaries as follows:

	1977	1976
	(In thousands)	
Assets	$163,835	$166,603
Revenues	206,848	219,790
Exchange gains	4,003	462
Net income (loss) of foreign subsidiaries and equity in earnings of foreign affiliates	(4,112)	9,380

By reclassification, fiscal 1976 operating results were reduced and exchange gains increased by $3,426,000 principally because costs of sales of the Brazilian beverage distilling subsidiaries are now translated at the historical exchange rate in effect when those inventories were acquired.

Interest expense related to the Company's investment in its foreign subsidiaries, export operations, income from foreign license arrangements and International staff headquarters expense have not been reflected in the net amounts reported above.

Discontinued Operations

Prior to the Company's acquisition of Kentucky Fried Chicken Corporation (KFC), KFC's management decided to discontinue operating its owned roast beef and domestic fish and chips outlets and three motor hotels. In this connection, provisions for estimated losses of $45,500,000 ($21,750,000 net of tax) were made in prior years. Subsequent operating losses and disposal costs charged against the related reserve aggregate $34,730,000 including $2,220,000 and $1,873,000 in fiscal 1977 and 1976, respectively. Management believes the remaining reserve will be adequate to complete the discontinuance of these operations. Amounts under "Properties and other assets not used in continuing operations" represent assets relating to the Company-owned KFC fish and beef stores.

In the three months ended September 30, 1976 (first quarter of fiscal 1977), the Company's poultry operations sustained a loss of $1,004,000 ($520,000 net of tax benefit). Management determined that the unpredictably wide fluctuations in poultry earnings resulting from severe swings in feed costs and poultry prices were not consistent with the overall earnings objectives of the Company. Accordingly, management has disposed of such business and an after tax charge of $6,680,000 (reflecting a provision of $9,172,000 less tax benefit of $2,492,000) has been made for operating losses to the date of disposition and losses expected to be sustained upon final settlement of the poultry operations and disposition of its assets. Poultry operations, prior to October 1, 1976, have been segregated from continuing operations in the accompanying consolidated statement of income under the caption "Income (loss) from poultry operations, less tax effect". Income taxes (benefit) reflected in such amounts were $(484,000) in fiscal 1977 and $6,500,000 in 1976. Revenues of discontinued poultry operations for the quarter ended September 30, 1976 were $27,142,000 and $99,570,000 in fiscal 1976. The net assets of the poultry operations included in the accompanying consolidated balance sheet at June 30, 1976 were not significant.

As of May 15, 1977, the Company reached an agreement to sell its poultry operations and transferred the assets and operations to the buyer for cash and short-term notes which will be equal to the final determination of the related net asset value.

Operating losses subsequent to September 30, 1976, estimated costs of a related litigation settlement, and disposal costs charged against the reserve through June 30, 1977 aggregated $7,492,000, before tax benefit. Management believes the remaining reserve balance, included in the accompanying balance sheet under the caption "Current portion of reserve for discontinued operations", will be adequate to complete the disposal of these operations.

Inventories

Inventories used in the computation of cost of sales for continuing operations in fiscal 1977 and 1976 were: June 30, 1977 — $219,367,000; June 30, 1976 — $191,425,000; and July 1, 1975 — $186,291,000.

Taxes

The provision for federal income taxes for continuing operations includes deferred tax charges (credits) resulting from the following:

	1977	1976
	(In thousands)	
Excess of tax over book depreciation	$1,750	$2,508
Losses from discontinued operations provided for in prior periods	1,193	940
Other items	(1,957)	713
Provision for deferred income taxes	$ 986	$4,161

The consolidated effective tax rate was 49.4% for both 1977 and 1976. Items affecting this rate which were in excess of 5% of the 48% statutory federal rate were: 1977 — 4.9% due to foreign losses for which no tax benefit is currently available, (4.4)% from reduction of excess federal income tax reserves and 2.8% from state and local taxes, net of federal income tax benefit; and 1976 — 3.7% from state and local taxes, net of federal income tax benefit.

Provision for foreign income taxes is made where applicable. No provision for federal income taxes has been made on the undistributed earnings of foreign subsidiaries since it is management's intent to reinvest substantially all earnings of foreign subsidiaries abroad. The undistributed earnings of foreign subsidiaries for which federal income taxes have not been provided at June 30, 1977 aggregate $16,063,000. If such earnings were distributed, income tax credits would be available to reduce any resulting income tax liability.

Net sales include excise taxes of $399,849,000 in 1977 and $400,161,000 in 1976.

Short-Term Borrowings and Long-Term Debt

Average U.S. and foreign short-term borrowings during fiscal 1977 and 1976 were $55,038,000 and $23,462,000 at weighted average interest rates of 30.5% and 16.7%, respectively. Borrowings reached maximum month-end balances of $79,824,000 and $30,259,000 at March 31, 1977 and April 30, 1976, respectively. Short-term borrowings at June 30, 1977 and 1976 were at weighted average interest rates of 38.0% and 19.2%, respectively. These amounts relate primarily to borrowings of foreign subsidiaries, principally Brazil, amounting to $30,558,000 and $28,010,000 for 1977 and 1976.

At June 30, 1977 and 1976, the Company had available informal unsecured lines of credit from several domestic banks aggregating $21,800,000 and $20,000,000, respectively, and from foreign banks aggregating $30,000,000 and $19,000,000, respectively. In connection with its domestic informal credit lines, the Company is expected to maintain average bank balances approximating 10% of the credit lines when not in use and an additional 10% when in use. Such balances are not legally restricted as to utilization or withdrawal and are generally met with normal operating balances.

Long-term debt due after one year follows:

	June 30,	
	1977	1976
	(In thousands)	
4½% convertible subordinated debentures due May 15, 1997	$100,000	$100,000
8⅜% Notes due February 15, 1985	90,000	90,000
Mortgage notes payable in various installments	3,497	3,991
Other	4,769	7,450
	$198,266	$201,441

The 4½% subordinated debentures are convertible into common stock at approximately $69.50 per share (1,438,800 shares) and are subject to redemption through annual sinking fund payments beginning in 1983 of not less than 6% nor more than 12% of the principal amount of debentures outstanding in 1982.

The 8⅜% Notes may not be redeemed before February 15, 1983. On or after that

date, the Notes may be redeemed at the option of the Company in whole or in part at their principal amount, plus accrued interest.

Mortgage notes payable are collateralized by deeds of trust, leasehold improvements, buildings, equipment and other assets with a net carrying amount of approximately $6,348,000 at June 30, 1977.

The most restrictive terms of long-term borrowing agreements limit the payment of cash dividends. Consolidated retained earnings not so restricted at June 30, 1977 amounted to approximately $138,755,000.

Aggregate maturities of long-term debt for the next five fiscal years are as follows: 1978 — $2,839,000; 1979 — $1,785,000; 1980 — $1,108,000; 1981 — $812,000; and 1982 — $440,000.

Capital Stock

There are 5,000,000 authorized shares of series preferred stock. Changes in outstanding preferred stock during 1977 and 1976 are summarized below:

	Series A Convertible non-dividend stated value $10 per share		Series B Convertible non-dividend stated value $10 per share	
	Shares	Amount	Shares	Amount
Balance at July 1, 1975	365,934	$2,169,000	47,980	$480,000
Conversions to common stock	(218)	(2,000)	(13,116)	(131,000)
Redemptions (including partial redemptions)	(115,128)	(565,000)	(1,092)	(11,000)
Balance at June 30, 1976	250,588	1,602,000	33,772	338,000
Conversions to common stock	(54)	—	(2,391)	(24,000)
Redemptions (including partial redemptions)	(56,818)	(386,000)	(1,645)	(17,000)
Balance at June 30, 1977	193,716	$1,216,000	29,736	$297,000

Each Series A preferred share is convertible into .10 share of common stock and is also redeemable in whole or in part at the option of the holder. Partial redemptions do not reduce the number of shares outstanding. Series B preferred stock is convertible into .2974 share of common stock and is also redeemable in sub series. The Company has the option to redeem both classes in whole or in part for $10 per share, less any amounts theretofore paid in partial redemption.

Authorized capital stock also includes 500,000 shares of 5% preferred stock, par value $100 per share and 200,500 shares of 5% convertible preferred stock, par value $100 per share, none of which were outstanding during 1977 and 1976.

There are 30,000,000 authorized shares of common stock with a stated value of $.50 per share. The changes in the outstanding shares during 1977 and 1976 are summarized as follows:

	1977		1976	
	Issued	In treasury	Issued	In treasury
Shares at beginning of year	21,155,048	7,650	21,134,790	9,150
Shares issued upon exercise of stock options	53,512		16,432	(1,500)
Conversions of preferred shares	854		3,826	
Shares at end of year	21,209,414	7,650	21,155,048	7,650

At June 30, 1977 and 1976, shares of common stock were reserved as follows:

	1977	1976
Conversion of outstanding:		
4½% convertible subordinated debentures	1,438,800	1,438,800
Series A convertible preferred stock	11,881	15,761
Series B convertible preferred stock	8,843	10,044
Stock options	1,447,821	1,502,995
	2,907,345	2,967,600

Stock Options

Options outstanding were granted under the Company's Qualified Stock Option Plan which expired on October 21, 1974, the 1971 Stock Option Plan, and the 1974 Stock Option Plan. In addition, a relatively small number of options granted to employees of acquired companies were assumed by the Company in substitution for options outstanding when the companies were acquired.

The Qualified Stock Option Plan provided for the granting of options for the purchase of 1,000,000 shares at option prices not less than the fair market value of the Company's common stock on the date of grant. The terms of the options did not exceed five years. The 1971 and 1974 Stock Option Plans provide for the granting of options, both qualified and non-qualified, for the purchase of 500,000 and 1,000,000 shares of common stock, respectively, at option prices not less than the fair market value of the Company's common stock on the date of grant. The terms of the qualified and non-qualified options may not exceed five years and ten years, respectively.

Changes in options outstanding during the years ended June 30, 1977 and 1976 were as follows:

	1977	1976
Outstanding options at beginning of year	1,150,107	917,510
Granted	—	313,500
Exercised	(53,512)	(17,932)
Cancelled	(48,888)	(62,971)
Outstanding options at end of year	1,047,707	1,150,107

Options exercisable at June 30, 1977 and 1976 aggregated 225,684 and 8,429.

Information regarding shares which were exercised, became exercisable or were outstanding at each year end is as follows:

	Number of shares	Option price		Market price*	
		Per share	Aggregate	Per share	Aggregate
1977:					
Exercised	53,512	$23.81 to 42.94	$ 1,379,000	$23.94 to 52.38	$ 2,209,000
Became exercisable	276,640	$23.81 to 64.69	$ 6,958,000	$23.63 to 52.38	$11,483,000
Outstanding at June 30	1,047,707	$23.81 to 74.07	$33,199,000	$25.00	$26,193,000
1976:					
Exercised	17,932	$ 9.66 to 46.44	$ 565,000	$38.69 to 57.31	$ 926,000
Became exercisable	16,184	$23.81 to 64.69	$ 509,000	$38.75 to 50.63	$ 683,000
Outstanding at June 30	1,150,107	$23.81 to 74.07	$36,161,000	$49.75	$57,218,000

*At dates exercised, became exercisable, or June 30, respectively.

At June 30, 1977 and 1976 there were 400,114 and 352,888 shares, respectively, available for future grant. No charges have been made to income in connection with options granted to date.

Pension and Profit-Sharing Plans

Pension expense was $5,876,000 in 1977 and $4,987,000 in 1976.

In fiscal 1977, the Company revised its profit-sharing plan for salaried employees. The Company's contribution is the lesser of 8% of net income as defined in the Plan or 8% of participants' salaries as defined in the Plan. Contributions by the Company to the Plan amounted to $3,780,000 in 1977 and $3,850,000 in 1976.

Leases and Commitments

Rent expense charged to operations was as follows:

	1977	1976
	(In thousands)	
Noncapitalized financing leases	$13,100	$13,554
Other	8,897	7,849
	$21,997	$21,403

Aggregate minimum annual rental commitments (excluding payments for real estate taxes, maintenance and insurance, where applicable) under noncancelable leases at June 30, 1977 were as follows:

Fiscal year ending June 30,	Total	Noncapitalized financing leases
	(In thousands)	
1978	$ 14,792	$ 12,197
1979	12,940	10,630
1980	11,345	9,391
1981	10,306	8,565
1982	9,594	8,019
1983-1987	33,604	27,869
1988-1992	17,078	13,909
1993-1997	9,044	7,779
Thereafter	17,483	17,395
	$136,186	$115,754

Total aggregate minimum noncancelable lease amounts (in thousands) by major category as of June 30, 1977 were as follows:

Land and land improvements	$ 43,136
Buildings	88,189
Machinery and equipment	4,861
	$136,186

The present values of the minimum rental commitments for noncapitalized financing leases are summarized below:

	June 30, 1977	June 30, 1976
	(In thousands)	
Land and land improvements	$22,524	$23,265
Buildings	31,445	32,932
Machinery and equipment	3,852	4,332
	$57,821	$60,529

Interest rates implicit in the terms of leases at the time of entering into such leases and used to discount minimum rental commitments for leases range from 5% to 18%. The weighted average interest rate was 10.5% and 10.8% at June 30, 1977 and 1976, respectively.

If the Company had capitalized its noncapitalized financing leases and the resultant assets were amortized on a straight-line basis and interest accrued on the outstanding lease liability, the effect on net income in each of the fiscal years ended June 30, 1977 and 1976 would have been less than 3% of average net earnings for the three most recent fiscal years.

Beginning January 1, 1977 the Company has capitalized certain new leases in accordance with Statement of Financial Accounting Standards No. 13. The amount of capital leases included in the asset categories in the balance sheet is immaterial.

Pending Legal Proceedings

In December 1972 the Federal Trade Commission (FTC) filed a complaint alleging a violation of Section 7 of the Clayton Act in connection with Heublein's 1969 acquisition of an 82% interest in United Vintners, Inc., a California winery. In November 1976, the FTC issued an amended complaint naming as additional parties Allied Grape Growers, United Vintners and Heublein Allied Vintners. This complaint, as amended, is also based on Heublein's acquisition of a majority interest in United Vintners. It charges that, as a result of the acquisition, Heublein and Heublein Allied Vintners have violated Section 7 of the Clayton Act and Section 5 of the Federal Trade Commission Act, and that United Vintners and Allied Grape Growers have violated Section 5. In the event FTC counsel are successful in proving a violation of Section 7,

they are expected to seek an order requiring divestiture of Heublein's interest in United Vintners and prohibiting for ten years the acquisition of other companies producing or selling domestic wine. It is contemplated that the case will be tried beginning December of 1977. Management intends to assert a vigorous defense of the FTC's allegations and believes that the outcome will not have a material adverse effect on the financial condition of Heublein.

In March 1975 Allied Grape Growers (Allied) and eight members of its executive committee filed a complaint against Heublein and certain past and present officers of Heublein and United Vintners, alleging misrepresentation in violation of Federal securities laws and the laws of the State of California in connection with Heublein's acquisition of an 82% interest in United Vintners from Allied. The complaint seeks damages in the amount of $134,400,000 as well as certain injunctive relief, rescission of Heublein's acquisition of an 82% interest in United Vintners and rescission of the long-term grape supply contract between Allied and United Vintners. Heublein intends to conduct a vigorous defense of this litigation. Based upon its present knowledge and assessment of the facts and issues, management believes that the litigation is not likely to result in an award of monetary damages that will have a material adverse effect on the financial condition of Heublein and that the above-referenced request for injunctive relief and rescission will not be granted.

In December 1975 Heublein and United Vintners filed counterclaims against Allied and certain of its directors in which they seek a judgment declaring that the grape supply contract executed by Heublein, United Vintners, and Allied in 1969 is illegal and unenforceable under the antitrust laws, and allege that the plaintiffs and others who are not parties to the action illegally conspired in violation of the antitrust laws to raise the prices which Heublein and United Vintners paid Allied for grapes. The counterclaims seek treble damages and costs suffered by Heublein and United Vintners as a result of the alleged conspiracy. Both Heublein and United Vintners are presently seeking to establish the extent of plaintiffs' liability. It is not yet possible to predict the outcome of the counterclaim, but management believes that any outcome could only have a neutral or positive effect on the financial condition of Heublein.

Between October 1974 and June 1977, 25 purported class action complaints were filed against Heublein and 37 others (including most of the major broiler chicken producers in the United States) which charged the defendants with a conspiracy in the production and sale of broilers in violation of the Sherman Act and claimed that the allegedly unlawful conspiracy has caused plaintiffs and others to be overcharged by an unspecified amount and with respect to an unspecified volume of broiler purchases beginning at least as early as 1970. A tentative settlement has been reached with the plaintiffs, and the terms are currently being finalized. The estimated amount of this settlement has been provided in connection with the disposition of the Company's poultry operations.

Heublein and its subsidiaries are defendants in various other litigation matters in which aggregate alleged damages are substantial. Based upon the advice of counsel, management believes Heublein and its subsidiaries have adequate defenses and no material liability will result from such litigation.

Supplementary Income Statement Information

	1977	1976
	(In thousands)	
Taxes, other than income taxes:		
Federal, state and foreign excise taxes	$400,500	$401,335
Other	22,022	20,598
	$422,522	$421,933
Advertising, merchandising and sales promotion	$136,264	$140,060
Depreciation and amortization	$ 23,714	$ 20,778
Maintenance and repairs	$ 18,437	$ 15,636

The amounts are based on continuing operations. See "Leases and Commitments" for information on rental expense.

Selected Quarterly Financial Data (Unaudited)

The following is a summary of selected unaudited quarterly financial data for the year ended June 30, 1977 (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$378,534	$400,618	$346,889	$385,147
Franchise and license fees	11,060	9,446	8,465	10,743
Total revenues	389,594	410,064	355,354	395,890
Cost of sales*	266,753	288,199	252,598	286,050
Net income	13,298	14,069	7,293	6,908
Earnings per share:				
Primary	.62	.65	.34	.33
Fully diluted	.60	.64	.34	.33

*Reclassified for foreign exchange gains.

First quarter net income includes a charge of $7,200,000; $0.33 per primary share ($0.31 per fully diluted share) for the first quarter loss ($520,000) and the disposal of the Company's poultry operations ($6,680,000). (See "Discontinued Operations".)

The fourth quarter includes charges of approximately $3,000,000, net of tax benefit; $0.14 per primary share ($0.13 per fully diluted share) for the phasing-out of the equipment and supplies operation of Kentucky Fried Chicken.

Replacement Cost Information (Unaudited)

As required by the Securities and Exchange Commission, the Company's financial statements included in its Annual Report on Form 10-K contain unaudited replacement cost information. This information indicates that the replacement cost of the Company's inventories and productive capacity exceed the amounts originally incurred to acquire such assets and that accumulated depreciation, and depreciation expense based on average current replacement cost of productive capacity also exceed comparable amounts calculated using historical costs. Replacement cost of sales are approximately the same as historical cost of sales.

The replacement cost information in the Form 10-K, a copy of which is available on request, is based on many theoretical assumptions and substantial subjective judgments which may be subject to errors of estimation and management makes no representation that the replacement cost information is useful.

Report of Certified Public Accountants

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

Board of Directors and Shareholders
Heublein, Inc.

We have examined the accompanying consolidated balance sheet of Heublein, Inc. at June 30, 1977 and 1976 and the related consolidated statements of income, additional paid-in capital, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Heublein, Inc. at June 30, 1977 and 1976 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

July 25, 1977

1975	1974	1973	1972	1971	1970	1969	1968
$ 772,576	$ 697,018	$ 586,423	$ 507,125	$ 446,343	$ 398,267	$ 358,081	$ 315,817
446,792	387,272	315,096	273,154	229,309	222,020	189,909	130,251
195,047	155,852	64,620	33,721	19,984	15,751	6,051	3,841
1,414,415	1,240,142	966,139	814,000	695,636	636,038	554,041	449,909
988,474	855,134	660,173	546,674	470,739	429,596	390,309	328,061
290,151	265,660	211,523	181,185	155,866	138,096	105,267	79,798
$ 135,790	$ 119,348	$ 94,443	$ 86,141	$ 69,031	$ 68,346	$ 58,465	$ 42,050
$ 63,226	$ 52,044	$ 42,005	$ 39,080	$ 32,491	$ 29,484	$ 26,473	$ 21,969
55,985	51,458	45,170	43,456	34,120	36,178	30,449	18,713
16,579	15,846	7,268	3,605	2,420	2,684	1,543	1,368
135,790	119,348	94,443	86,141	69,031	68,346	58,465	42,050
16,910	9,830	6,357	7,381	8,321	8,930	3,315	2,378
2,147	1,384	1,683	646	396	1,295	274	16
632	122	(225)	367	(485)	1,409	765	472
61,661	58,683	46,877	41,474	31,834	33,207	30,544	21,140
59,998	52,341	42,667	38,299	28,787	28,913	25,645	19,020
1,498	2,069	1,544	(607)	396	2,729	5,900	5,798
61,496	54,410	44,211	37,692	29,183	31,642	31,545	24,818
—	—	(13,800)	(15,250)	(6,865)	283	—	111
61,496	54,410	30,411	22,442	22,318	31,925	31,545	24,929
—	—	—	293	1,078	1,377	2,733	3,026
$ 61,496	$ 54,410	$ 30,411	$ 22,149	$ 21,240	$ 30,548	$ 28,812	$ 21,903
21,216,540	21,166,002	20,932,055	19,607,538	18,522,645	18,036,939	17,683,913	17,669,663
$2.83	$2.47	$2.04	$1.94	$1.50	$1.53	$1.30	$ .90
.07	.10	.07	(.03)	.02	.16	.33	.33
2.90	2.57	2.11	1.91	1.52	1.69	1.63	1.23
—	—	(.66)	(.78)	(.37)	.01	—	.01
$2.90	$2.57	$1.45	$1.13	$1.15	$1.70	$1.63	$1.24
$2.72	$2.40	$1.99	$1.87	$1.44	$1.46	$1.26	$ .89
.07	.09	.07	(.03)	.02	.13	.30	.30
2.79	2.49	2.06	1.84	1.46	1.59	1.56	1.19
—	—	(.61)	(.73)	(.33)	.01	—	.01
$2.79	$2.49	$1.45	$1.11	$1.13	$1.60	$1.56	$1.20
$ 1.075	$ .98	$ .91	$ .87	$ .84	$ .79	$ .74	$ .68
22,711	20,497	18,095	15,921	9,554	8,586	7,774	7,012
37,287	31,844	24,572	22,085	18,155	18,950	15,138	8,982
452,976	421,249	341,247	292,349	250,990	236,235	212,049	186,224
55,634	59,259	38,954	30,325	45,086	69,365	34,679	23,610
18,730	14,919	10,750	10,267	9,458	9,655	6,461	6,408
225,870	189,880	148,858	149,052	153,564	155,880	111,840	89,212
219,535	212,800	124,800	147,530	77,035	83,172	47,786	41,339
2.1 to 1	2.2 to 1	1.8 to 1	2.4 to 1	1.6 to 1	1.7 to 1	1.4 to 1	1.4 to 1
19.6%	19.3%	17.8%	18.8%	17.0%	18.8%	17.5%	15.5%
4.24%	4.22%	4.42%	4.71%	4.14%	4.55%	4.63%	4.23%
25,912	24,711	18,300	17,452	16,794	15,693	13,754	13,161
27,174	27,493	28,537	30,044	33,426	29,626	29,586	24,024

Directors

EDWARD B. BATES
Chairman, Connecticut Mutual Life Insurance Company

CHRISTOPHER W. CARRIUOLO
Executive Vice President

JAMES F. ENGLISH, JR.
Vice President, Trinity College, and Chairman of the Board, The Connecticut Bank and Trust Company

EDWARD H. HAMM
Vice President, The Northland Company (A financial service company)

LEON W. HARMAN
President, Harman Management Corporation (A franchisee for quick-service restaurants)

RALPH A. HART
Consultant and Retired Chairman Heublein, Inc.

CHARLES G. KLOCK
Retired President, General Electric Credit Corporation

JOHN G. MARTIN
Consultant and Retired Chairman Heublein, Inc.

ARTHUR A. MILLIGAN
President, Bank of A. Levy

WILLIAM H. MORTENSEN
Personal Investments

FRANCES HEUBLEIN O'DELL
Personal Investments

BARRY M. ROWLES
Vice President - Group Executive

ROBERT L. TRESCHER
Partner, Law Firm of Montgomery, McCracken, Walker & Rhoads

HICKS B. WALDRON
President

STUART D. WATSON
Chairman

Corporate Officers

STUART D. WATSON
Chairman

HICKS B. WALDRON
President

CHRISTOPHER W. CARRIUOLO
Executive Vice President

PAUL R. DOHL
Vice President - Group Executive
Spirits Group

MICHAEL A. MILES
Vice President - Group Executive
Food Service and Franchising Group

JOHN A. POWERS
Vice President - Group Executive
Wines Group

BARRY M. ROWLES
Vice President - Group Executive
International Group

ROBERT R. WEISS
Vice President - Group Executive
Grocery Products Group

HUGH R. BEATH
Vice President and Treasurer

GEORGE CASPAR
Vice President, Secretary and General Counsel

GENE R. EHNEN
Vice President and Controller

RICHARD C. FARR
Vice President - Executive Management

CHARLES J. HERBERT
Vice President
President, Spirits Sales Division

JOSEPH M. McGARRY
Vice President
Communication and Public Affairs

JOHN J. MORAN
Vice President - Human Resources

ROY E. STONE
Vice President - Technical Resources

JAMES H. WILLE
Vice President
President, KFC Corporation

Executive Committee

S. D. Watson*
E. B. Bates
J. F. English
C. G. Klock
J. G. Martin
R. L. Trescher
H. B. Waldron

Audit Committee

A. A. Milligan*
C. G. Klock
R. L. Trescher

Compensation and Benefits Committee

E. B. Bates*
J. F. English
C. G. Klock
J. G. Martin
R. L. Trescher

Social Responsibility Committee

C. W. Carriuolo*
E. H. Hamm
L. W. Harman
R. L. Trescher

Finance Committee

C. G. Klock*
E. B. Bates
J. F. English
B. M. Rowles
H. B. Waldron
S. D. Watson

Nominating Committee

J. G. Martin*
E. B. Bates
J. F. English

*Chairman of Committee

Principal Offices

Corporate Headquarters
Farmington, Connecticut 06032 — (203) 677-4061

Food Service and Franchising Group Headquarters
1441 Gardiner Lane, Louisville, Kentucky 40232 — (502) 459-8600

Kentucky Fried Chicken
Zantigo Mexican-American Restaurants
H. Salt Seafood Restaurants

Grocery Products Group Headquarters
900 Asylum Avenue, Hartford, Connecticut 06105 — (203) 525-0171

International Group Headquarters
Farmington, Connecticut 06032 — (203) 677-4061

Spirits Group Headquarters
330 New Park Avenue, Hartford, Connecticut 06101 — (203) 233-7531

Arrow Sales Company
Smirnoff Sales Company
Venture Sales Company

Wines Group Headquarters
601 Fourth Street, San Francisco, California 94107 — (415) 777-6500

United Vintners, Inc.

Transfer Agents

The Bank of New York
90 Washington Street, New York, New York 10015

Bank of America, N.T. & S.A.
55 Hawthorne Street, San Francisco, California 94105

Third National Bank in Nashville
Uptown Station, P.O. Box 2844, Nashville, Tennessee 37219

Registrars

Morgan Guaranty Trust Company of New York
30 West Broadway, New York, New York 10015

Wells Fargo Bank, N.A.
P.O. Box 44011, San Francisco, California 94120

First American National Bank
326 Union Street, Nashville, Tennessee 37237

Trustees

4½% Convertible Subordinated Debentures
United States Trust Company of New York
45 Wall Street, New York, New York 10005

8⅜% Notes
Morgan Guaranty Trust Company of New York
23 Wall Street, New York, New York 10015

Annual Shareholders' Meeting

The annual meeting of shareholders of Heublein, Inc. will be held at 10:00 a.m. Thursday, October 27, 1977, in the Grand Ballroom of The Sheraton-Hartford Hotel, Trumbull Street at Civic Center Plaza, Hartford, Connecticut.

The Company has a Nominating Committee of the Board of Directors to whom shareholders may submit candidates for consideration as nominees for the Board of Directors. The Committee considers each candidate and makes recommendations to the full Board. Members of the Committee are identified on page 44.

Heublein's 1977 Annual Report on Form 10-K as filed with the Securities and Exchange Commission will be available upon request from the Corporate Secretary, Heublein, Inc., Farmington, Connecticut 06032.

Dividends Declared & Stock Price Ranges

			Stock Price Range*	
	Quarter	Dividend	High	Low
1977	4	$.33	26⅞	22¾
	3	.33	42⅞	26
	2	.33	48⅜	38¾
	1	.30	53	47¼
1976	4	$.30	56½	46⅞
	3	.30	59¼	46½
	2	.30	48	39⅛
	1	.275	50½	37½

*New York Stock Exchange

Heublein Brands of Foods and Beverages

Listed below are the principal brands of fine foods and beverages marketed by Heublein. When you have occasion to use products of this type, we invite you to order Heublein brands by name — you'll be getting the finest products of their kind.

SPIRITS: Smirnoff Vodkas (80° & 100°) • Smirnoff Silver • Black Velvet Canadian Whisky • Black & White Scotch • Buchanan's 12 Year-old Scotch • Arrow Cordials and Brandies • Bahia Licor de Cafe • Heublein Cocktails • The Club Cocktails • Jose Cuervo Tequila • Cuervo 1800 • Don Q Rum • Irish Mist Liqueur • Milshire Gin • Felipe II Spanish Brandy • Tullamore Dew Irish Whiskey • Popov Vodka • Relska Vodka • Arrow Ostrova Vodka • McMaster's Scotch and Canadian Whiskies • Matador Tequila • Malcolm Hereford's Cows • Yukon Jack Canadian Liqueur • Boggs Cranberry Liqueur

CALIFORNIA WINES: Beaulieu Vineyard Wines • Inglenook Vineyards Wines • Italian Swiss Colony Table Wines, Dessert Wines and Aperitifs • Petri Wines • Colony Varietal Table Wines • Annie Green Springs Refreshment Wines • T.J. Swann Refreshment Wines • Bali Hai Tropical Flavored Wine • Sangrole • Mission Bell Wines • Santa Fe Dessert Wines • H.M.S. Frost • Esprit • Jacare • G & D Wines and Vermouth • Lejon Champagne and Brandy • Jacques Bonet Champagne and Brandy • Zazie Refreshment Wine

IMPORTED WINES: Lancers Vin Rose, Vinho Branco and Rubeo • Harveys Bristol Cream • Bouchard Pere & Fils Burgundy • Egri Bikaver Hungarian Wine • Tokaji Aszu Hungarian Dessert Wine • Harveys Other Sherries and Ports • Vinya Rose • Kiku Masamune Sake • Taru Sake

CONVENIENCE FOODS: Colonel Sanders' Recipe Kentucky Fried Chicken • Extra Crispy Chicken • Barbecue-Style Chicken • H. Salt Seafood • The Colonel's Little Bucket Desserts • Zantigo Mexican-American Foods

SAUCES AND SPECIALTY FOODS: A.1. Steak Sauce • Grey Poupon Mustard • Ortega Tacos, Chiles, Sauces and Mexican-style Foods • Snap-E-Tom Tomato Cocktail • Regina Wine Vinegars and Cooking Wines • Escoffier Sauces • Steak Supreme Sauce

HEUBLEIN INC. FARMINGTON CONNECTICUT 06032